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THE UNIVERSITY OF ALBERTA

THE COMPANY A, COMPANY B CHARGES:
THE MANNING GOVERNMENT, THE TREASURY BRANCHES AND HIGHWAY CONTRACTS

BY

BOB HESKETH

A THESIS

SUBMITTED TO THE FACULTY OF GRADUATE STUDIES AND RESEARCH

IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE

OF MASTER OF ARTS

DEPARTMENT OF HISTORY

EDMONTON, ALBERTA

(SPRING 1989)

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THE MANNING GOVERNMENT, THE TREASURY BRANCHES AND HIGHWAY CONTRACTS

submitted by BOB HESKETH

in partial fulfilment of the requirements for the degree

of MASTER OF ARTS

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ABSTRACT

Two weeks before Albertans were to vote in the 1955 provincial election, Opposition Leader J. Harper Prowse charged that the Social Credit government of Ernest C. Manning was arranging highway construction awards to benefit contractors with outstanding provincial Treasury Branch loans. Prowse initially named the firms Company A, Company B, Company AB, and Sparling-Davis but later identified the alphabet companies as O´Sullivan Construction, Mannix Ltd. and Mannix-O´Sullivan. The 1955 election was dominated by allegations of government wrongdoing. Prowse´s Company A, Company B charge was particularly controversial because it combined in one issue the Treasury Branch loans policies and the government´s procedures for awarding contracts, each of which, individually, was the focus of numerous opposition charges. Manning denied Prowse´s charge and a Royal Commission later absolved the government of wrongdoing. This thesis will argue that Prowse was right.

The Social Credit government did provide preferential treatment for contractors who were clients of the Treasury Branch. The Royal Commission did not discover the preference because the government withheld information and provided false evidence to the Commission. Prowse was only partially correct in believing that government preference arose because contractors were unable to repay their Branch

loans. Preference was actually based on Branch clientage. The Treasury Branch was the center of the Manning government's ongoing efforts to build a social credit economy in Alberta. For favoured Branch clients such as O'Sullivan and Sparling, the government provided a coordinated program of assistance, combining generous Branch loans to increase their 'purchasing power' with help from other government departments. Unfortunately for the government, its assistance to O'Sullivan and Sparling created enormous debts which, in the case of Sparling, threatened to bankrupt the entire Branch system. Eventually, Mannix came to the rescue of the Treasury Branch and the government in highly lucrative takeovers of both companies. Mannix then benefitted from the Manning government's preference.

This thesis challenges a standard interpretation which views the Manning government as honest, competent and, by the mid-1940s, orthodox in its economic philosophy. It argues that the Manning government deliberately deceived the public, was naive in its understanding of business affairs and was still largely social credit in its economic orientation until 1955. It was only because of the political damage arising from the 1955 election that the Manning government finally abandoned social credit economics and accepted orthodox free enterprise economics.

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I would like to thank several people who assisted me in the preparation of this thesis. David Leonard at the Provincial Archives of Alberta and Doug Cass at the Glenbow-Alberta Institute, together with the other archivists at these institutions, generously gave of their time and provided me with several valuable research suggestions. Mr. William Joyce, an Alberta government records officer tracked down the transcripts from the 1955-56 Alberta Royal Commission to Inquire into the Conduct of the Business of Government when I had all but given up hope that they would ever be found. I was fortunate in being able to interview several individuals who were active in Alberta politics in the 1950s. Their recollections provided me with valuable insight although I am sure not one would agree entirely with my interpretation of the events of that period. Their names are listed in the bibliography.

Dr. David Elliott and Dr. Alvin Finkel answered my queries about their interpretations of Social Credit and listened attentively and critically to my views. My particular thanks to Dr. Finkel for providing me with a draft of his forthcoming book on Social Credit tentatively titled "The Social Credit Phenomenon." My thanks to the members of my committee, Dr. Larry Pratt and Dr. Paul Voisey, for their comments and criticisms of my work. Dr. Rod Macleod, my thesis supervisor, has given me encouragement to pursue my studies since I first returned to the University of Alberta. I appreciate his knowledge of this period of Alberta history and his apparently inexhaustable patience while waiting for the first drafts of this thesis to appear.

Lastly, I would like to thank Betty Matwichuk, my wife, for providing for our two person family so that I could quit my job as a letter carrier and, after sixteen years away from school, attend university. She has listened to my endless ramblings about Social Credit with patience and a great deal of insight and she has given me love, understanding and a lot of hot meals when it was really my turn to cook. Thank you Betty.

Although I have benefitted a great deal from the assistance of many people, needless to say, I alone am responsible for the finished product.

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CHAPTER 1

The Company A, Company B Charge

[i]

On the 20th of May 1955, Robert F. Lambert, a Conservative candidate in Edmonton in that year's provincial election, derisively suggested that Premier Ernest C. Manning and his Social Credit government were having "halo trouble."[1] It was an apt comment from a veteran Conservative worker who ran an otherwise forgettable campaign for public office. Ernest Manning enjoyed a reputation for incorruptibility and for an earnest, moral approach to government in which Christian principles were wed indissolubly to the conduct of public affairs. It was typical of Manning that, in his dedication to an anthology celebrating Alberta's Golden Jubilee Anniversary that same year, he tempered his joy at the province's emergence from the hardships of the Great Depression and the Gehenna of the Second World War to an unprecedented prosperity, "a golden present and the promise of a still more golden future," with the caution that "however blessed in material things we may be there is nothing which can replace the treasure of the mind and of the spirit. If we the citizens of Alberta, in reverence comprehend the true realities we can look forward in confidence to the future God has in store for us."[2] Manning's personal reputation imbued the entire Social Credit government with an air of heightened morality. Over the years, most Albertans had come to believe that the leadership of their stern yet somewhat shy and awkward Premier guaranteed honest, businesslike government. This trust was particularly important since their government was responsible for managing the increasing public revenues derived from the province's oil riches. After all, it was Manning who had led the government away from the strange quackery of social credit economics and the debt of the depression and onto the sensible paths of conservative, orthodox free enterprise and balanced budgets. He was not about to be deceived into error now by a sudden flash of resource wealth when his gaze was fixed so constantly on the importance of eternal values. For Albertans, it was a comforting arrangement. In election after election, by supporting Manning, they cast their ballots for Christian morality, honesty in government, and the prudent management of public finances. And then 1955 dawned.

It was the year of the scandal in Alberta politics. Quite suddenly, Manning and his government were scorched by first one opposition charge of government corruption and then another, and another, and another, until the very heat of the opposition attack seemed spontaneously to be sparking new allegations and insinuations. The year began with the opposition charging that the government was allowing profit-taking on government land purchases by middlemen rumoured to be friends of Social Credit. Later there were allegations that Socred M.L.A.s were receiving favours when they banked with the provincial Treasury Branch, the resignation of two government M.L.A.s for contravening the Legislative Assembly Act, a snap election called to 'clear the air,' accusations that the Department of Public Works and the Department of Highways had fixed contracts to assist Treasury Branch clients, at least three threats of lawsuits, and a Royal Commission which was still investigating several of the charges against the government when the year drew to a close. There was no denying that Manning's halo appeared to have been knocked askew by the beating it took over the course 1955. There was even an allegation that Manning himself had benefitted financially by trading some of his land for government land in order to obtain more lucrative mineral rights.

But Manning recovered quickly. Although the election had given Alberta its largest opposition caucus since World War I,[3] the 24 opposition M.L.A.s -- 15 Liberal, 3 Conservative, 2 C.C.F., 1 Coalition, 1 Independent, 1 Independent Social Credit, and 1 Liberal Conservative -- went on to become 24 forgotten men. Most owed their election victories to the public doubt created by all the allegations of government corruption; as a group, they lacked direction and political savvy, and few could lay claim to any grassroots organization. Some of the heat went out of their arguments when the Report of the Royal Commission,[4] released in June 1956, cleared the government of all wrongdoing. The remainder was beaten out by a Social Credit government which, rather than being crushed by the rejection it had received from the voters in 1955, was reinvigorated by the sudden threat to the Alberta bastion of the Social Credit movement. Under Manning's unerring guidance, the government cast off the outmoded preferential voting system which had helped the opposition M.L.A.s to several victories[5] and relied increasingly on expensive public opinion polls for the grass roots information which its creaky party organization could no longer provide. It also implemented an astute balance of the carrot and the stick in its spending of 'surplus' government revenues from the province's oil wealth, first largely ignoring municipal financing concerns while paying out annual citizens' dividends to all resident adult Albertans, then announcing a gigantic anti-recession program and rescuing local governments from their financial plight in plenty of time for the next election.[6] The opposition parties were not just beaten in the 1959 election; they were decimated. Only three of the opposition M.L.A.s won re-election and one of them, Earl Ansley was an unrepentant Douglasite who had been sitting as an Independent Social Credit M.L.A. since 1952. For Manning personally, the election results must have provided gratifying vindication and retribution after the indignities of 1955. For Social Credit, the 1959 election secured its grip on power until the Conservative breakthrough in the late 1960s.

The 1959 election also seemed to secure the reputation of the Manning government in history: Manning's halo was back, securely in place. The turbulent 1955 election has basically been disregarded entirely by scholars of Alberta political history;[7] the sudden sprouting of opposition has been considered an anomaly in a province used to one party dominance;[8] and the scandals have been ignored as just so much smoke.[9] An occasional writer, with a raised eyebrow might knowingly suggest that so much smoke had to hide some fire[10] but the overall verdict has been clear: Manning "ran a clean ship."[11] Manning was personally incorruptible. "With an integrity all too rare, Ernest Manning ruled his cabinet with a rod of iron of which he was not sparing as soon as his keen perception detected any departure from the straight and narrow way."[12] Manning provided honest, competent, orthodox free enterprise government.

A detailed study of one of the issues raised by the opposition during the 1955 election suggests that each of these three supposed characteristics of the Manning government -- honest, competent, orthodox free enterprise -- if not founded on myth has at least been vastly exaggerated. The charge in question was raised by J. Harper Prowse, the leader of the Liberal party. On the 14th of June 1955, he claimed he had discovered why Premier Manning had called the snap election. He then launched into a complicated narrative which linked the debts certain companies owed the Treasury Branch to the value of the awards they had received from the Department of Highways. Although Prowse provided a rather garbled explanation of his discovery, partly because he named only two companies, Sparling-Davis Co. Ltd. and Sparling Davis Ltd., and referred to the others as Company A, Company B, and Company AB, the full import of his charge against the government was clear. The Social Credit government had somehow subverted the competitive bid system for awarding government contracts in order to provide highway construction work to firms which were indebted to the Treasury Branch and were experiencing difficulties repaying those loans, and the government had even tried to use its influence to persuade oil companies to hire one Branch borrowing customer, Sparling

Davis Ltd., for their oil field service work.[13]

Later, Prowse clarified his story by identifying the alphabet companies: Company A was O'Sullivan Construction Company; Company B was Mannix Limited; and Company AB was Mannix-O'Sullivan. According to Prowse's story, O'Sullivan was the first to benefit from increased road construction contracts due to its Treasury Branch loans. However, later, when Mannix Ltd. took over O'Sullivan and formed Mannix-O'Sullivan and then took over Sparling-Davis Co. Ltd. and formed Sparling Davis Ltd., both Mannix Limited and Mannix-O'Sullivan benefitted from increased road contracts as well. Although Prowse had some of his facts twisted, there was enough substance to his allegations to raise some serious questions about the government's ethics and competence. For several days the Edmonton Journal and the Calgary Herald editorials hummed with these questions and with calls for a judicial inquiry into procedures for awarding government contracts. Were the contracts arranged or were they won fairly by competitive bids? If the contracts were arranged, why did the companies require preferential treatment to help them repay their Branch loans, or were they friends of the government? If the loans were in trouble, were the provincial Treasurer and the public purse ultimately accountable for any Branch losses? From 12 September 1944 to 23 December 1954, Ernest C. Manning had served as Treasurer. Was the Treasurer incompetent? If the government was fixing highway contracts to help these Treasury Branch customers, what about other government contracts? Were they also rigged? The only way to be sure of the answers was to hold an independent judicial inquiry.[14]

Manning, of course, denied Prowse's charge, provided his own version of the facts, eventually promised a full inquiry into the various opposition charges, and threatened to sue Prowse for libel.[15] Mannix Ltd. also denied Prowse's charges[16] and, on the day before the election, followed the Premier's lead and filed its own notice of intent to sue the Edmonton Journal and the Calgary Herald for their coverage of the story for a whopping $5 million.[17] Although the Royal Commission which Manning established to investigate the opposition's charges did not have authority to examine Prowse's Sparling Davis charge, it examined the charge that the government was showing preference in its highway construction contract awards to borrowing customers of the Treasury Branch. The Commission absolved the government of any fault. But Prowse was right.

A review of the government's contract awards will show that the government did arrange main highway construction contracts for O'Sullivan Construction, Mannix-O'Sullivan, and Mannix Ltd. The Royal Commission did not discover the government's contract rigging quite simply because the government withheld information and provided false evidence in some of its exhibits and some of the government witnesses lied in their presentations to the Commission. Although further research would be required to determine whether or not the government also tried to pressure oil companies operating in the province to use Sparling Davis Ltd. for their construction needs, it will be shown that the government had several other reasons for not wanting the Commission to investigate its dealings with Sparling.

Prowse was also correct in his suspicion that the government was providing contract work because O'Sullivan Construction had Treasury Branch loans which were in trouble. However, despite his often remarkable political instincts, Prowse did not fully understand why those loans became troubled. He assumed that the top level management of the Branch was basically incompetent. He did not suspect that Branch loans became troubled because the Branch had not completely renounced social credit economics or accepted orthodox economics. Nor did Prowse realize that the government might channel government contracts to a Treasury Branch customer even if there was no problem with that customer's loans. The Branch, in fact, was the center of the Manning government's still vital aspirations to create a social credit economy. Although the Manning government was always reluctant to back a provincewide industrial strategy with a large investment of public funds, it sometimes provided a coordinated program of support to particular companies. In such a case, Treasury Branch loans, government contracts, and financial support from other government agencies could all work together to enhance the productivity of a favoured company. More importantly, by channelling its promotion of such a company through the Treasury Branch, the Manning government could simultaneously strengthen the institution which was the key to the future of social credit -- the Treasury Branch. Unfortunately for the government, its success rate when it chose to sponsor a company appears to have been dismal, and problem loans were one result. O'Sullivan Construction Limited and Sparling-Davis Company Limited were the government's two worst failures.

V

Premier Manning's approval of allocating highways contracts to O'Sullivan and to the Mannix interests was motivated by clearly identifiable economic and political considerations. What began as a coordinated program of government support for O'Sullivan -- by providing generous Treasury Branch loans and highway construction work -- and for Sparling-Davis Co. Ltd. -- by supplying Branch loans and financial support from two other government lending agencies, the Alberta Industrial Corporation (AIC) and the Provincial Marketing Board -- turned into a rescue mission to bail out the Branch from bad loans which,in the case of Sparling, threatened to bankrupt the entire system. Manning, as Provincial Treasurer through most of this period, was responsible for that system's success. For Manning, even if the Branch could have afforded major losses on its loans, the political repercussions from any large loss would have been prohibitive, largely because for years the Branch's difficulties had been covered up by government obfuscations and half-truths. When the government belatedly recognized that the Branch's loans to O'Sullivan and Sparling were in danger, it attempted a variety of solutions, from granting further loans in the hopes that this would cure the companies' problems of undercapitalization, to providing additional funds from other government agencies, to providing more government contracts. Nothing worked. Finally, it was Fred Mannix who came to the rescue by taking over the companies and assuming responsibility for their loans. But Mannix had his price -- more highway contracts.

To understand why the Treasury Branch's loans became troubled and why the Branch finally had to rely on Mannix to get it out of trouble, it is necessary to examine the origins and philosophy of the Branch. The Treasury Branch, from its founding in 1938 to the early 1950s, was an institution which fulfilled most of the functions of a bank but which had not yet cast off its social credit origins, had only partially incorporated orthodox economics and was still basically an instrument of government policy. When it came to lending money, thanks to the Branch's social credit origins, it tended to see the solution of its clients' economic problems in terms of increasing their purchasing power, while its aversion to orthodox economics made it peculiarly liable to disregard the standard procedures a bank used to safeguard its loans. The result was that the Branch loaned excessively and recklessly, particularly to certain key customers whose success was considered essential to the government's social credit strategy. The history of the Branch system, with particular attention to its loaning policies, will be reviewed in Chapter 2.

Although by 1954 the Manning government had begun to recognize the economic costs of its social credit influenced loans, it was not until the 1955 election that Social Credit came to understand the political costs. For years, the Manning government had successfully hidden the Treasury Branch's problems from opposition politicians and the general public. It had created a fiction that the Branch operated at arm's length from the government and that it was a successful financial institution. The government had been able to sustain the fiction of a prospering Treasury Branch because the Branch almost always refused to force the liquidation of troubled loans, which might have brought its problems to public attention, and because Alberta's tiny opposition in the Legislature was seldom able to force the government to reveal anything about Branch operations.

The political risks to the government escalated dramatically during the 1955 election. Despite the demonstrable weaknesses of the opposition parties, Social Credit's snap election strategy very nearly proved disastrous. As the campaign developed, the government realized that neither Social Credit's vaunted party organization nor Manning's image of incorruptibility was overcoming the public doubt created by the opposition's persistent charges of corruption -- and increasingly by the government's own refusal to agree to a public inquiry. It was just at this juncture that Prowse began asking some fairly specific questions about the O'Sullivan, Sparling and Mannix involvements of the Treasury Branch and the apparent connection between their Branch loans and the government's highway contract awards. Manning appeared to be trapped between two evils. He could continue to refuse to agree to an investigation -- but risk massive electoral losses -- or he could grant an investigation in the hopes his concession would assuage public doubts -- but risk the discovery of the Branch's problems and the DPW's preferential treatment of Branch customers. Manning opted for a Royal Commission to investigate the opposition's charges. Chapter 3 briefly reviews the tactics which the government used over the years to hide the Treasury Branch's problems, and then focusses on the 1955 election. Chapter 4 examines the strategy which was painstakingly devised by the government to hide both the Branch's problems and the government's duplicity in arranging highway contracts for O'Sullivan and Mannix.

To maximize the impact which its industrial strategy was having on the Treasury Branch, the government had been coordinating certain Treasury Branch loans to favoured customers with support from other government departments or agencies. If it happened that these same customers were unable to repay their Branch loans, the government would then provide further government loans from other government sources to reduce the overall exposure of the Branch, or more contract work to increase the customer's earnings and, hopefully, permit repayment. In the case of O'Sullivan Construction, the government's coordinated support originally involved Treasury Branch loans and the provision of main highway construction contracts. Chapter 5 will look at the Treasury Branch's loans to O'Sullivan, the methods the government used to provide O'Sullivan with highway construction contracts, the government's attempts to recoup its loans when repayment problems developed, Mannix's takeover, and the government's decision, after a dispute between Manning and Fred Mannix, to continue to provide the Mannix interests with highway contracts. In the case of the Sparling companies, the government's coordinated support originally involved Branch loans as well as loans from the AIC and the Marketing Board. Chapter 6 looks at the loans these various agencies provided for several Sparling companies, including Sparling-Davis Co. Ltd., Sparling Fowler and CESSCO; details the Branch's loans problems and the government's attempted solutions; and examines the unusual circumstances under which Mannix once more came to rescue and the less than satisfactory results for the government of its new arrangement with Mannix.

Although the Manning government recovered quickly from its political losses in the 1955 election, it continued to pay the economic costs of the Treasury Branch's misadventures for several years. To a large degree, Manning was personally responsible both for the origin of the Branch's problems and for the government's ongoing efforts to cover up those problems. While Manning was Treasurer and Premier, the government treated the Branch not as an institution at arm's length from political interference but as a tool to help realize ideological, economic, and partisan goals. When the Branch ran into problems, the government was particularly prone to hide those problems from the public. The Branch was Social Credit's Achilles' heel. As a quasi-social credit, quasi-banking institution, it was a living symbol of the movement's hopes that a social credit economy would some day be reached, but it also symbolized the government's trustworthiness as an orthodox manager of public funds. The Branch was at the center of Social Credit's transition from its founding philosophy to financial orthodoxy; its success was fundamental to Social Credit's success. As problems arose, Manning provided his personal reassurance that all was well in order to shield the Branch from its critics. In time, it was Manning's reputation -- his halo -- that the government had to protect as much as the Treasury Branch. The election losses Social Credit suffered in 1955 together with the risks involved in deliberately deceiving the Royal Commission convinced Social Credit that it had to abandon its attempts to build a social credit economy based on the Treasury Branch. Chapter 7 reviews the transition of Social Credit to orthodoxy following 1955 and attempts to evaluate the Manning government's pursuit of a social credit economy based on the Treasury Branch.

[ii]

The present study differs in several respects from existing interpretations of Social Credit and, in particular, from interpretations of the Manning era. Early Social Credit has been viewed by different scholars as a conservative movement, a regional protest movement, a middle-of-the-road reform movement and, more recently, as a fluid coalition encompassing elements of left wing and right wing philosophy. Regardless of which of these interpretations scholars have adopted, they have all agreed that, under Ernest Manning's leadership, Social Credit went through a transition and became an orthodox free enterprise government. Unfortunately, most of these scholars have paid less attention to the Manning government and to the actual transition from social credit to orthodox economics than to the earlier period. Invariably they have assumed that, with the federal government's disallowance and the federal court's ultra vires rulings, Social Credit began to give up on social credit. Aberhart may have adopted a few half-hearted social credit measures, such as when the Treasury Branch was founded as the centerpiece of the Interim Program, and Manning may have continued to pay lip service to social credit ideas in order to avoid offending the true believers among his followers but no one, except the Douglas fringe, took it very seriously. With the expulsion of the Douglasites in 1948, Social

Credit was no longer social credit.

Although the limitations of a case study must be kept in mind, the evidence provided in the present work suggests some changes to the traditional interpretation of Social Credit's transition to orthodoxy. The Social Credit government did not simply renounce the economic principles in its founding philosophy. Rather, it continued to apply social credit solutions and to reject orthodox economic thinking in its administration of the Treasury Branch's loaning policies into the 1950s. Indeed, as has already been suggested, the Treasury Branch was the key to the government's social credit strategy. Even when the government's faith in social credit economics finally began to diminish, its antagonism to the tenets of financial orthodoxy remained; there was still a lingering belief that the system of orthodox economics was a tool which the financial conspiracy was using to enslave mankind. The transition from social credit economics to orthodox free enterprise economics, then, was not as smooth as has been suggested nor was it simply led from above by Manning. Indeed, it appears that Social Credit did not wholeheartedly seek to become an orthodox free enterprise party until well into the 1950s and then the transition was, in part, forced by the failure of its attempts to apply social credit theory within the Treasury Branch. That failure was so serious that it threatened the very existence of the Treasury Branch system which, in turn, would have jeopardized the government and the reputation of the man who for many years had headed both the government and the provincial treasury, Ernest Manning. Manning has justly been recognized as a leader of unquestioned brilliance, who combined an almost photographic memory with a constitution which enabled him to withstand an incredible workload; he dominated Social Credit from soon after he became Premier until after his retirement from public life. But it was under Manning that the Treasury Branch conducted its numerous disastrous experiments in applied social credit economics; inevitably his understanding of economics and his competence while he served as Treasurer must be questioned.

When the various interpretations of Social Credit are reviewed, Manning's reputation as a champion of orthodox free enterprise stands out clearly as a primary reason for the argument that Social Credit quickly abandoned social credit economics. The belief that the Manning-led mainstream of the party easily rejected its founding philosophy, in turn, promoted a tendency among scholars to downplay the importance of that philosophy to the original movement. Typically, the leaders, who are credited with masterminding the transition to orthodoxy, are regarded as having only lightly held their social credit ideals. Even Social Credit's antagonism to the financial tyranny and its conspiratorial understanding of history seem less important since the Douglasite and anti-semitic elements were drummed out of the party in 1948. Changes are emphasized and continuity is undervalued. Yet, as suggested, few scholarly works have been devoted to the transition period when the patterns of change and continuity which would determine the future of Social Credit were actually established. A few such works did appear in the early 1950s but most of the pertinent government documents were not yet public at that time so scholars had to depend heavily on government personnel for access to any restricted information. When the one work which dealt exclusively with the Social Credit government's Interim Program is examined -- Bruce Allen Powe's M.A. thesis "The Social Credit Interim Program and the Alberta Treasury Branches"[18] -- it reveals telltale signs of an interesting phenomenon first identified by Alvin Finkel: Social Credit intentionally tried to rewrite its own history in order "to make it appear that ... [it] had always stood for rigid free-enterprise principles."[19] As will be shown later, Powe's thesis has proved remarkably durable and its influence can be detected in the work of several scholars and in the general underestimation of the importance of the Interim Program.

As Social Credit distanced itself from social credit economics and adopted orthodox and quasi-*laissez faire* precepts, the party also began to stress more and more the contrast between William Aberhart and Manning. A 1958 semi-official biographical sketch of Manning, written by Tony Cashman and sold by the Social Credit League for fifty cents a copy, even goes so far as to contrast the Germanic Wagnerian Aberhart to the English essence of Manning: "the clue to the mystery of this fellow Manning. The fellow's an Englishman... In thought and action the fellow's an Englishman." Cashman portrays a non-radical Aberhart and offers a placid, measured description of the 1930s as a time when there was "nothing basically wrong with the economy. It just needed more purchasing power to make it work." The attributes Cashman attempts to emphasize in Manning are intended to counter opposition criticisms associating Social Credit with social credit economics, a lack of respect for British parliamentary traditions and a blending of religion with politics. Thus, Cashman stresses that, even as a member of the

Aberhart cabinet, Manning was an ambassador to business and financial circles and earned their respect, and that, unlike Aberhart, he carefully separated religion from politics.[20]

Even before Finkel argued that Social Credit was rewriting its own history, David Elliott had noted the tendency for certain historians of Social Credit to impose the conservatism and financial orthodoxy of the Manning administration back in time onto the Aberhart administration. According to Elliott, the tendency began in the early 1950s when much of the work on Social Credit was undertaken as part of the Social Credit in Alberta series, sponsored by the Canadian Social Science Research Council. Elliott suggests that after researchers noted the conservative and capitalist nature of the Manning administration, they supposed that Aberhart's belief system had been identical.[21] Whether or not one agrees with Elliott's particular insight, it is clear that the only two scholars in the Social Science series who paid significant attention to the political history of the Social Credit government both portrayed it as an essentially conservative movement in its economic philosophy.

C.B. Macpherson argues that the only radical aspect of Social Credit's economic program was its monetary reform platform. According to Macpherson, Social Credit's supporters were mainly farmers and townsmen who were tied to the farm economy and its problems. At heart then, the movement's radicalism "was that of a quasi-colonial society of independent producers, in rebellion against eastern imperialism but not against the property system." When the federal government and courts blocked Social Credit's attempts to legislate social credit economic measures, the movement drifted into a conservatism which had always been inherent in its petit bourgeois radicalism.[22] In a quite similar vein but shorn of Macpherson's Marxist overtones, James R. Mallory argues that the "formation of a Social Credit government under the premiership of William Aberhart in 1935 symbolized a rejection of the National Policy and of the subordinate role which the West played in that policy." Mallory argues that social credit economic thought was basically an alien philosophy which, due to the extreme conditions of the depression, found itself temporarily grafted onto a traditional agrarian protest movement. When the federal government and courts blocked the government's social credit legislation, it fell back on the "traditional debt adjustment remedies" advocated by farm interest groups. Once the problem of settling Alberta's debts was resolved, Social Credit made peace with the eastern financiers in a new alliance against their common enemy, socialism.[23]

In an attempt to redress the imbalance created by the de-radicalization of early Social Credit, Elliott, Finkel and other scholars have drawn particular attention to some of the radical aspects of the early Social Credit movement: Social Credit's active cooperation with Communists, its anti-capitalist rhetoric, its working class support, and its legislative initiatives requiring state intervention in the economy.[24] According to Elliott, Aberhart's political ideology was left-wing, as evidenced by his association with Communists and members of the C.C.F. and his reformist legislation in the education, labour, social welfare and debt adjustment fields; but he had an authoritarian view of state which ignored the difference between party and state, undervalued parliamentary procedure, and accepted the need for repressive legislation. In consideration of his charismatic leadership, use of propaganda and authoritarian theory of state, Elliott concludes that Aberhart was a left-wing fascist.[25] There are obvious difficulties associated with extending Elliott's classification of Aberhart to the early Social Credit movement as a whole when it could speak with so many voices, from Aberhart to Manning, to the Douglas wing, to working class activists.[26]

Credit for the most helpful suggestion for conceptualizing early Social Credit belongs to Finkel. In keeping with his view that early Social Credit was not just a party of the petite beourgeoisie but also contained "working class elements,"[27] and in recognition of the shifting power combinations within Social Credit over time, Finkel argues that the party must be viewed in more fluid terms[28] than is possible when it is defined as a hard-edged variant on a left-right spectrum. Finkel's work is notable for its determined effort to look beyond Social Credit's monetary fixation and examine the party's broader legislative program.

The revival of scholarly interest in the radical aspects of Social Credit inevitably draws attention to those works which previously had recognized Social Credit's reformist tendencies and argued that Social Credit provided middle-of-the-road government. Unfortunately, the three most prominent works, John Barr's The Dynasty: The Rise and Fall of Social Credit in Alberta, Ernest Watkins's The Golden Province:

Political History of Alberta, and Richard Swann's Ph.D. thesis "Progressive Social Credit in Alberta,"[29] are all analytically weak and based on limited research. Barr and Swann emphasize Social Credit's progressive legislation. Barr also joins with Watkins -- a former Conservative M.L.A. who writes from a Conservative viewpoint -- in an analysis of the Manning government which provides a useful reminder that for some, Social Credit was too ready to interfere in the market economy. The Dynasty has long been required reading on Social Credit mainly because it purported to cover the entire Social Credit era.[30] In fact, Barr -- whose views seem to have been strongly influenced by his acquaintance with Preston Manning and his father, the Premier -- boldly leapfrogs from the 1940s into 1960s with barely a touchdown in the intervening decade. With the expected publication of Alvin Finkel's history of Alberta Social Credit in 1989, The Dynasty may soon be safely ignored for most topics.

Regardless of the interpretation of the early Social Credit movement which scholars have adopted, if they have examined Social Credit's transition to orthodoxy they have pointed to basically the same causes and to the mid-1940s or 1948 as marking the completion of the transition. The list of landmarks in the transition to orthodoxy, of course, begins with federal rejection of Social Credit legislation, and then includes the responsibilities of governing, the death of Aberhart, Manning's influence, the rising prosperity of the war and postwar years, and the ousting of the Douglasites. Social Credit's radicalism and its aversion to orthodoxy are viewed as being absorbed in the battles against the new enemies: centralism, federal power, the world plot, and socialism.[31]

The realization that Social Credit and the academics of the 1950s sanitized Social Credit's past has not led to much re-evaluation of the transition period to see if the same phenomenon was at work. Credit for the most fully articulated recent analysis of the transition period again belongs to Finkel.[32] Finkel characterizes the transition as a period when Social Credit changed from a more fluid movement encompassing left and right wing elements to an increasingly sharply defined reactionary and conservative movement whose membership was made up partly of a "pious petite bourgeoisie" interested in Christian government and partly of Douglas dogmatists.[33] Finkel does not suggest that the transition period has been de-radicalized -- anything but. Rather, he argues that, with a true appreciation of the radical character of the early movement, the transition to conservatism must be seen as a more "dramatic change" than scholars have realized.[34] Finkel concentrates on three motive forces as key to the transition: first, the exit to the C.C.F. of left wing Social Credit members who were increasingly disgruntled with the government's relief and workmen's compensation policies, the decline of democracy within the party and the attack on socialism; second, the province's increasing prosperity in the war and postwar years; and third, Manning. In Finkel's view, it was Manning who revised and articulated the provincial movement's somewhat amorphous anti-capitalist philosophy so that it differentiated between business, which became an ally of Social Credit by the 1944 election, and finance, which remained an enemy, though one which was pursued with less and less vigor. After 1948, the battle was basically left to the federal movement. Manning, who in theory remained an ardent advocate of monetary reform, in practice, welcomed successful businessmen as allies of the government, stressed good government, opposed government intervention in the market place and subsidies to business, and generally pursued conservative and reactionary social policies.[35]

Finkel's work may be criticized for its tendency to overestimate the left-radicalism of the early Social Credit movement[36] which, in turn, makes the transition to Manning's conservatism seem greater, and for its lack of attention to the particularity of social credit ideology. Finkel examines the actions of the Social Credit government within a standard left-right framework, which has its dangers when applied to a movement which believed in a financial conspiracy and the need for a certain measure of stealth to defeat that conspiracy, and which stressed results over the means employed to bring about those results. For instance, Finkel argues that the passing of the Marketing Board Act in 1939, which gave the government extensive powers to engage in almost any business and otherwise intervene in the economy, should be viewed as evidence of a readiness "to consider a giant leap to the left."[37] It is an interesting argument when he also identifies the years from 1937 to 1940 as the period when Social Credit began to lose its left wing support due to its increasing conservatism.[38] Surely the Marketing Act, which was later used to provide increased purchasing power to Alberta manufacturers by assisting them with their inventory costs, is more accurately viewed as an attempt by the government to find a way to bring into being a social credit economy after the start of federal rejection of its social credit legislation. The significant change was that, once it was allied with business, Social Credit could countenance the application of increased purchasing power to business, where before it had argued that the social credit dividend was the due of consumers.[39]

With his analysis of the role of Manning, Finkel comes back in line with the host of writers who have argued that Manning's leadership was central to the transformation of Social Credit to orthodox economics in the 1940s. Barr, for instance, argues that as soon as Manning became Premier, his "first objective and accomplishment ... was to de-radicalize Social Credit, to transform it into a successful middle-of-the-road government."[40] Considering the supposed centrality of Manning in shepherding Social Credit to orthodoxy, the question of when Manning learned about orthodox free enterprise has received little attention. Manning was largely educated by Aberhart and Aberhart was not noted for his knowledge of economics.[41] Cashman suggests that Manning learned about orthodoxy when, as minister of Trade and Industry, he became an "ambassador" to business and financial circles[42] but, as we have seen, Cashman deliberately emphasized Manning's distance from everything social credit. The image created by Cashman has been popularized by James MacGregor: "Energetic and studious Ernest Manning had been digging into the problems of practical government and dipping into the field of economics, and before long conservatism began to rub the rough edges off his former convictions."[43] Finkel, though with more attention to evidence, also argues that the business community viewed Manning as more reasonable than his fellow Social

Credit ministers[44] but this hardly establishes Manning's credentials as an advocate of orthodoxy.

Although Manning's devotion to social credit must rightly be questioned, it is difficult to sustain the opposing image of an orthodox Manning in the 1940s and even the early 1950s, when he spoke so frequently and emphatically against orthodoxy and in favor of social credit economics. A solution to the apparently confusing mixture of beliefs held by Manning and most of the Social Credit membership during this period -- a mixture which included an increasingly conservative world view and a belief in an international conspiracy, and which recognized the need for an alliance with business against socialism, but which did not reject social credit economics -- can be discovered through a re-examination of the Interim Program.

With the beginning of federal rejection of Alberta's early social credit legislation, the Alberta movement was left with few alternatives if it was to continue to work for a social credit economy. Still, through 1941, it continued to pass legislation which was aimed both at helping debtors and at curbing the powers of finance by imposing a moratorium on debts while limiting the recourse of banks to the courts. Mallory views the debt adjustment acts as evidence of the return of what was essentially an agrarian reform movement to traditional agrarian solutions.[45] The continuing hostility to the hand-maidens of finance evident in this legislation deserves greater emphasis. The fact that Social Credit did not go on endlessly passing legislation only to have it rejected by the federal government and courts should not be taken as a sign that the movement's or the leadership's loyalty to social credit had dissipated.[46] Indeed, Social Credit believed that the federal government, whether wittingly or otherwise, had acted on behalf of the financial conspiracy when it blocked Alberta's social credit legislation and this contributed to Social Credit's pro-provincial rights stand at the time. In the wake of Ottawa's first rejections of the province's social credit legislation, the Alberta government realized that it had to craft a positive alternative plan of attack against the financial conspiracy. The key to that plan of attack was the 1938 Interim Program. The Treasury Branch was the first social credit institution in the new strategy against finance. It provided the movement with an institutional focus and, henceforth, members measured the success of the movement, in part, by the success of the Treasury Branch.

The government's alliance with business by 1944 was a sign of the increasing conservatism of Social Credit but it did not indicate the abandonment of social credit economics any more than its previous alliance with left-wing activists had required the abandonment of the movement's philosophy. Once Social Credit believed that business could be separated from the financial powers and that the financial powers were in league with the socialists, Social Credit's new alliance held out the hope of achieving a social credit economy. It promised to wed the vigor of private industry to the ideological concerns of social credit in order to replace the institutions of the financial conspiracy.[47] Thus, Social Credit's anti-socialist, pro-good government campaign during the 1944 election, saw the party embrace business, not in preference to social credit, but in order to realize social credit.

The new alliance demanded adjustments to the Interim Program and it was at about this time that the Treasury Branch began actively to sponsor the growth of some of its business clients by offering loans in order to increase their purchasing power in the market place. The revised Interim Program continued to win sufficient support from the party's membership to maintain a fairly united party until 1948. The split of that year, which had probably been delayed by the impact of the war, led to the expulsion of several Douglasites who were vocalizing more and more of Major Douglas's distasteful conspiracy theories linking the powers of finance to a Jewish world plot. By 1948, it was clear to the Douglasites that, despite the Interim Program, Social Credit was embarked on a course which was irreversibly leading the movement away from its founding principles and betraying it to the Jewish financial conspiracy.

The majority of the party continued to have faith that the Interim Program would lead on to the attainment of social credit. By and large, the membership, including Manning, also continued to believe in a world conspiracy -- several M.P.s and M.L.A.s now rationalized that it just happened to be led by Jews.[48] It was not until the mid-1950s, that the government finally realized the economic and political costs involved when the Treasury Branch ignored orthodox economics and applied social credit theory in its loans. As a result of first its loans to O'Sullivan and Sparling and then the near-disaster of the 1955 election, Social Credit finally understood that it had to abandon practicing the economic teachings of its founding philosophy if it was to remain in power.

The question of why scholars have overlooked the government's ongoing efforts to utilize the Treasury Branch as a social credit instrument requires some explanation. The first and most obvious reason is that many of the pertinent government documents were not available in the past. Although many of these documents are still restricted today, enough new sources are now available to allow a closer view of the administration of the Treasury Branch and its loaning policies.[49] A second reason can be discovered by reviewing the workmanlike thesis on the Treasury Branch written in 1951 by Bruce Allen Powe. Powe, of course, was severely limited by restrictions on the research materials he had available,[50] but he had the apparent good fortune to receive the cooperation of various officials of the Treasury Branch, who made available numerous government documents. In his thesis, Powe argued that the Branch cast off the social credit influence which had been present at its birth shortly after it began making loans in 1941. Thereafter, in most essentials, the Branch behaved like a bank, except that it was somewhat more conservative in its loaning policies which, in turn, was partly due to the "political factor" that bad loans would create "public criticism.".[51] It did not offer long term loans based on mortgage security, permitted unsecured loans only in exceptional circumstances, and even turned down customers for loans who would have been considered reliable by the banks.[52] After noting that the government offered little direct support to the Branch, Powe attributed the Branch's "small percentage of bad loans" directly to "the relatively high proportion of their advances which are referred to the superintendent or the Loans Committee" whose expertise and caution saved the Branch from unfortunate loans.[53] In a sense, Powe's closely argued thesis was too good. It appears to have directly influenced the work of Barr and Hugh Whalen[54] and may have induced other scholars such as Mallory, Elliott and Finkel to pay less attention to the Interim Program.[55]

All of Powe's arguments which are cited above are so much nonsense. Although he could not have known it, the Branch officials who had 'helped' him, apparently provided documents and information which presented a false picture of the Branch's operations.[56] They led Powe to believe that the Branch was, in most respects a conventional bank. Why would they want to portray the Branch as a conservative banking institution if it was not? There are several reasons. Early in its history the Branch had discovered that, outside the Social Credit membership, the general public was reluctant to deposit their savings in a social credit institution because they did not consider it safe. As well, the Branch had, since about 1943, been actively seeking business accounts so it had to appear to be a staunchly conservative institution to attract and keep its business clientele. In a more general sense, the appearance of financial orthodoxy was vitally important to the government to safeguard its credit rating while it attempted to pay off the province's public debt, and to maintain the investor confidence which was essential to develop the province's resources.

A further reason which one might think would be of paramount importance to the Branch officials, in reality, probably had little influence. The Branch officials who helped Powe included Superintendent Olive who, more than anyone else within the Treasury Branch, had been responsible for developing and administering the Branch's loans policies and specifically for supervising the Branch's large loans to businesses. By the time Powe was doing his research, several of those loans had become troubled and, according to the provincial auditor, were threatening to cost the Branch hundreds of thousands of dollars. In fact, at the time, Olive was assisting Powe, he was also overseeing the Sparling-Davis Company loan. Although the Branch's increasing problems might logically have provided Olive with his strongest reason for wanting to convince Powe that the Branch was a traditional bank, such was not the case. In the early 1950s, Olive still rejected the auditor's advice, as did the Manning government, so he would not have been very worried about the so-called troubled loans. Rather, Olive probably did not want Powe to know about most of those loans because they applied social credit theory and contradicted just about every rule of sound banking that had ever been written. Social Credit's indifference to conventional banking practices had to be hidden from the general public.[57]

Thus, even before Social Credit became an orthodox free enterprise government, it was trying to create the impression of orthodoxy in order to obscure its continued adherence to social credit economics, maintain business confidence, and protect itself from reprisals from the financial community. There was always an element of deception involved in Social Credit. Everyone knew about it. Numerous scholars and most of the general public seem to have believed that Manning practiced orthodox economics but continued to talk about social credit economics. Social Credit members reversed the formula. In their view, Manning was sincere in his talk about social credit; he practiced orthodox economics to an extent because he had no alternative within the laws of the land, but if you really wanted to know what Manning believed you just had to look at the Treasury Branch. In the early 1950s, it was not unusual for Socred M.L.A.s to stand in the legislature and give testimony to their faith that the government was still on the path to social credit. Invariably, they cited the Treasury Branch as being, what J.E. Clark (S.C. - Stettler) termed, the "key to Social Credit's 'Big Promise'."[58]

The pattern of deceiving the public about the Treasury Branch can be traced back to 1943 and Superintendent Olive's testimony before the Public Accounts Committee.[59] Even before that, the Interim Program had been an attempt to fool the financial conspiracy. At that time, the federal government, acting on behalf of the conspiracy, had blocked the Alberta movement's first-chosen path of legislating a social credit economy. The Interim Program then provided an alternate route to social credit but the financial conspiracy also blocked the Program's effectiveness so yet another route had to be found. A.J. Hooke once aptly described the process as following "devious routes" to social credit.[60] The alliance with business and the apparent acceptance of orthodoxy was such a route.

For most party members, who were accustomed to thinking in conspiratorial terms anyway, the need for cloak and dagger deception of the financial tyranny was self-evident if social credit was ever to be realized. They proved willing to see the government enact an increasing array of orthodox financial policies which were popular with businesses and the general public. Ultimately, of course, following devious routes led the Manning government and Alberta not to social credit but to a society predicated on orthodox free enterprise values -- hence, the bitterness of longtime supporters, such as Hooke, who only belatedly discovered that the detour away from social credit had been permanent. For such supporters, although the nature of the conspiracy they were fighting had changed from the 1930s to the 1950s, it was still a conspiracy to rob the people of their credit and it still had to be fought. The battle itself sustained the spirit of the movement. Without the battle, the movement would die -- as Social Credit discovered once Premier Manning renounced the struggle with the publication of Political Realignment in 1967.

Endnotes

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1. Edmonton Journal, 21 May 1955. Lambert may have owed his inspiration for the phrase to Carl Nickle, the prominent Calgary oilman and Conservative M.P. who referred to Social Credit's tilted and tarnished halo at a party meeting a few weeks earlier. "Minutes of the Alberta Progressive Conservative Association Meeting Held in the Palliser Hotel," 15-16 April 1955, W.J.C. Kirby Papers, M6646, Glenbow-Alberta Institute.

2. W.G. Hardy, ed., The Alberta Golden Jubilee Anthology 1905 - 1955 (Toronto: McClelland and Stewart, 1955), dedication by Ernest C. Manning.

3. In 1917, out of 58 M.L.A.s, there were 24 non-government M.L.A.s including 2 armed service representatives. Ken A. Wark, A Report on Alberta Elections: 1905-1982, (Edmonton: Chief Electoral Officer of the Government of Alberta, 1983.

4. Report of the Royal Commission appointed under The Public Inquiries Act, Chapter 139, Revised Statutes of Alberta 1942, Edmonton, 1 June 1956.

5. Bob Hesketh, "The Abolition of Preferential Voting in Alberta," Prairie Forum, 12:1(1987), 123-143. The preferential system allowed voters to number their choices for M.L.A. and if the leading candidate did not receive a majority (or in multi-member ridings a proportionate fraction of one more than the number of M.L.A.s to be elected plus one vote), the second and even third and fourth choices could count. In the 1955 election, enough voters used the system to vote only for oppositon candidates that Social Credit lost four seats where their candidate was leading but did not have a majority after first count and came close to losing several others. For a more complete explanation of the voting system see Wark, Report on Alberta Elections.

6. For government legislation affecting the cities see Alvin Finkel's "Social Credit and the Cities," Alberta History. 34(Summer 1986), 20-26.

7. Both John Barr and Walter D. Young overlook the 1955 results. John L. Barr, The Dynasty: The Rise and Fall of Social Credit in Alberta, (Toronto: McClelland and Stewart, 1974); Walter D. Young, Democracy and Discontent: Progressivism, Socialism and Social Credit in the Canadian West, (Toronto: McGraw-Hill Ryerson, 1978), 2nd edition. Ernest Watkins provides some analysis of the election from Conservative perspective. The Golden Province: Political History of Alberta, (Calgary: Sandstone Publishers, 1980). Finkel's soon to be published book, tentatively titled "The Social Credit Phenomenon," provides greater coverage of the election and the opposition charges.

8. The province's domination by the government party has attracted considerable attention since MacPherson first wrote about Alberta's quasi-party system. C.B. MacPherson, Democracy in Alberta, the Theory and Practice of a Quasi-Party System, (Toronto: University of Toronto Press, 1954); Thomas Flanagan, "Stability and Change in Alberta Provincial Elections," Alberta Historical Review, 21:4(1973), 1-8; T.J. Levesque and K.H. Norrie, "Overwhelming Majorities in the Legislature of Alberta," Canadian Journal of Political Science, 12:3(1979), 451-70; J.A.Long and F.Q. Quo, "Alberta: One Party Dominance," in M. Robin (ed.), Canadian Provincial Politics: The Party Systems of the Ten Provinces, (Scarborough: Prentice-Hall, 1972), 1-26.

9. Barr absolves the government of any fault. Dynasty, 163.

10. Watkins suggests that the charge that Socred M.L.A.s were receiving loans without proper security was the "most sensitive area" the Royal Commission investigated. Golden Province, 178. The Manning government's brush with trouble in the mid-1960s, when Provincial Treasurer Ted Hinman was accused of mingling private and public business concerns, may only have heightened Manning's reputation because of the appearance of decisiveness with which he separated Hinman from the government. For one example of this attitude see "The Quietest Success Story in Canadian Politics," The Edmontonian, 9 Jan. 1964. On the Hinman scandal, also see Alvin Finkel's "Social Credit Phenomenon."

11. Barr, Dynasty, 163.

12. James G. MacGregor, A History of Alberta, (Edmonton: Hurtig Publishers, 1972), 302.

13. Prowse kept repeating the charges. For three versions, see "J. Harper Prowse, South Edmonton Meeting," 14 June 1955, Alberta Liberal Association Papers, 1924-1959, M1724/125, Glenbow-Alberta Institute; "Audio, J. Harper Prowse," 20 June 1955, M1724/125; "C.B.C. - 15 Minutes, J. Harper Prowse," 23 June 1955, M1724/125.

14. Edmonton Journal, 15-18 June 1955; Calgary Herald, 15-18 June 1955.

15. Calgary Herald, 27 June 1955.

16. Calgary Herald, 23 June 1955.

17. Calgary Herald, 28 June 1955.

18. Bruce Allen Powe, "The Social Credit Interim Program and the Alberta Treasury Branches," M. A. Thesis, University of Alberta, 1951.

19. Alvin Finkel, "Alberta Social Credit Reappraised: The Radical Character of the Early Social Credit Movement," Prairie Forum. 11(Spring 1986), 69.

20. Anthony W. Cashman, *Ernest C. Manning, A Biographical Sketch*, (Edmonton: Alberta Social Credit League, 1958), 34, 15, 16, 27.

21. David R. Elliott, "William Aberhart: Right or Left?," *The Dirty Thirties in Prairie Canada: 11th Western Canada Studies Conference*. Edited by D. Francis and H. Ganzevoort. (Vancouver: Tantalus Research, 1980), 23.

22. C.B. Macpherson, *Democracy in Alberta*. Walter D. Young follows the broad outlines of Macpherson's arguments in *Democracy and Discontent*.

23. James R. Mallory's *Social Credit and the Federal Power in Canada*, (Toronto: University of Toronto Press, 1954), 57, 172, 162. For a bolder version of Mallory's view, see S. D. Clark's "Foreward" to Mallory's book. Ramsey Cook argues that the *Social Credit in Alberta* series reveals the then current belief that regionalism was essentially an obstacle to Canadian unity. "The Burden of Regionalism," *Acadiensis*, 7(Autumn, 1977), 110.

24. David R. Elliott and Iris Miller, *Bible Bill: a Biography of William Aberhart*, (Edmonton, Reidmore Books, 1987); Alvin Finkel, "Populism and the Proletariat: Social Credit and the Alberta Working Class," *Studies in Political Economy*, 13(Spring 1984) 109-35; Larry Hannant, "The Calgary Working Class and the Social Credit Movement in Alberta, 1932-35," *Labour/Le Travail*, 16(Fall 1985), 97-116.

25. Elliott, "William Aberhart," 23; Elliott and Miller, *Bible Bill*, 319-320.

26. The attempt to define the particular splice between left and right in the early Social Credit movement has long been a matter of contention. For one other recent view, see John F. Conway, "The Nature of Populism: A Clarification," *Studies in Political Economy*, 13(Spring 1984), 137-44.

27. Finkel, "Populism and the Proletariat," 111.

28. Finkel, "Alberta Social Credit," 78. Finkel expands on this view in Chapter 1 of "Social Credit Phenomenon."

29. Barr, *The Dynasty*; Watkins, *Golden Province*; Richard Swann, "Progressive Social Credit in Alberta," (Ph.D. Thesis, University of Cincinatti, 1971).

30. For instance, Carlo Caldarola recommends *The Dynasty* as the "most comprehensive" work on Social Credit. "The Social Credit in Alberta, 1935-1971," in *Society and Politics in Alberta, Research Papers*, ed. Carlo Caldarola. (Toronto: Methuen Publications, 1979), 33 n1.

31. Mallory, *Federal Power*, 155, 161; Macpherson, *Democracy in Alberta*, 201, 213; Barr, *Dynasty*, 122-30; Finkel, Chapter 5, "Social Credit Phenomenon." The assumption that the transition to orthodoxy was completed in the mid-1940s has been generally accepted by scholars who

have not specialized in Social Credit. MacGregor, History of Alberta, 283-86; Watkins, Golden Province, 153-4; John Richards and Larry Pratt, Prairie Capitalism: Power and Influence in the New West, (Toronto: McClelland and Stewart Ltd., 1979), 82.

32. In particular see Finkel's, "Alberta Social Credit," "Populism and the Proletariat," and Chapter 3 and 4, "Social Credit Phenomenon."

33. Finkel, "Populism and the Proletariat," 126; Finkel, "Alberta Social Credit," 81.

34. Finkel, Chapter 1, "Social Credit Phenomenon."

35. Finkel, Chapter 4 and 5, "Social Credit Phenomenon."

36. The same tendency is found in the work of Larry Hannant, who analyses the influence of the Calgary working class on the early Social Credit movement in that city. In fact, Hannant establishes working class participation, but his evidence often points to a lack of any meaningful influence by working class activists--hence their later exit from Social Credit. "Calgary Working Class."

37. Finkel, "Alberta Social Credit," 72, 75.

38. Finkel, "Populism and the Proletariat," 120-30; Finkel, Chapter 3, "Social Credit Phenomenon."

39. See "The Alberta Marketing Act," Statutes of the Province of Alberta, 1939, Chapter 3, Sections 18 and 19. At first, Social Credit viewed the Act in terms of assisting small, rural industries based largely on an agricultural economy. In the years following its alliance with business, it increasingly used the Act to assist large firms catering to the construction and oil industries.

40. John Barr as quoted in Owen A. Anderson, "The Alberta Social Credit Party: An Empirical Analysis of Membership, Characteristics, Participation and Opinions," (Ph.D. Thesis, University of Alberta, 1972), 121-22.

41. Elliott and Miller, Bible Bill, 318. John A. Irving suggests that, in 1935, most commentators regarded the Social Credit leadership as "economically illiterate," The Social Credit Movement in Alberta, (Toronto: University of Toronto Press, 1959), 4.

42. Cashman, Ernest Manning, 16-21.

43. MacGregor, History of Alberta, 283.

44. Finkel, Chapter 4, "Social Credit Phenomenon." Finkel bases his conclusion on letters found in the Calgary Board of Trade Papers and the diary of former Aberhart executive assistant, Fred Stone, both found at the Glenbow Archives Institute.

45. Mallory, Social Credit and the Federal Power, 172.

46. John A. Irving's Social Credit Movement in Alberta will probably always retain its importance as a major work on Social Credit because it forcefully reminds the reader of the immediacy and power with which people were swept into the original movement. On Irving's book, see Elliott and Miller, Bible Bill, 365.

47. The strategy was, in many respects, a precursor of that outlined by Manning more than two decades later except by then, of course, Manning had dropped his hostility to finance and was soon to become a director of the Imperial Bank of Commerce. E.C. Manning, Political Realignment: A Challenge to Thoughtful Canadians, (Toronto: McClelland and Stewart Ltd., 1967).

48. For some examples of this attitude see "At the Crossroads, Which Path Shall We Take?" address by Solon Low, n.d., Solon Low Correspondence and Papers, 1944-60, M695/475, Glenbow-Alberta Institute. "Cornelia Wood to W.E. Cain," 17 Sept. 1957, Cornelia Wood Papers, 86.125/515, Provincial Archives of Alberta. Wood was Social Credit MLA from 1940 until her defeat in 1955; she was re-elected in 1959.

49. The most valuable sources are the Premier's Papers at the Provincial Archives of Alberta (69.289), which include numerous memoes from during Manning's tenure as Treasurer, and a small collection of the minutes of the Loans Committee of the Treasury Branch (72.467), which was placed on deposit at the Provincial Archives of Alberta by a former Committee member.

50. Bruce Allen Powe, "The Social Credit Interim Program and the Alberta Treasury Branches," (M. A. Thesis, University of Alberta, 1951).

51. Ibid., 172, 185, 212.

52. Ibid., 189, 197, 217.

53. Ibid., 219.

54. Barr, Dynasty, 125, 114; Hugh Whalen, "Social Credit Measures in Alberta," Canadian Journal of Economics and Political Science, 18:4(1952), 514. Caldarola ("Social Credit in Alberta," 42.) accepts Barr's argument that under Manning's leadership, the Branch followed a cautious loaning policy, while its conservative administration "provided a standard against which the chartered banks' performance could be measured; and in that sense, the branches were an effective prod to better banking practices in Alberta." (Dynasty, 125, 114.) It is not clear what source Barr relied on for the latter bit of puffery but, as will be shown in Chapter 2, it is almost comical in its inaccuracy.

55. Mallory, Federal Power, 115. Elliott and Miller do note some of the

Branch's problems in becoming successfully established.(Bible Bill, 280-81, 318.) Finkel stresses the Marketing Act rather than the Branch. (Chapter 3, "Social Credit Phenomenon.")

56. Powe acknowledged the help of Superintendent Olive, R.G. Brownie, the admninistrative supervisor of the Branch and R.E. Browne, a member of the Loans Committee and investment supervisor. "Social Credit Interim Program."

57. In addition to the works by MacPherson and Mallory previously cited, two more theses written at about this time came to the conclusion that the government had long since abandoned social credit economics. Hugh J. Whalen, "The Distinctive Legislation of the Government of Alberta, (1935 - 1950)," (M.A. thesis, University of Alberta, 1950); Rose P. Madsen, "The Fiscal Development of Alberta," (M.A. thesis, University of Alberta, 1949). Both Whalen and Madsen acknowledge the help of various government officials in making government documents available.

58. Edmonton Journal, 19 Feb. 1955.

59. "Proceedings of the Public Accounts Committee," March 1943, 87.316, Provincial Archives of Alberta.

60. "Conference, Treasury Branch Managers," 10 Sept. 1943, 69.289/938A.

Chapter 2

Learning the Economic Costs of Following Devious Routes

[i]

Social Credit's transition towards an orthodox free enterprise philosophy can be traced in the history of the Treasury Branch. The Branch had been created in 1938 more as an institution to help introduce social credit and in direct opposition to the financiers than as a bank. It was the center piece of the Interim Program, a stop gap government initiative enacted following the start of federal rejection of previous social credit legislation, which was designed both to circumvent constitutional restrictions[1] and to satisfy party supporters and the Alberta public that something was being done to deliver social credit. The Program was advertised as an alternate route to a social credit economy and the Branch was conceived of ~~as~~ an alternate institution to those of the financial tyranny. The government thought the Alberta public would flock to the Branch and expected the banks, trust companies and many businesses to oppose the Branch. However, it was not long before the government recognized that even the general public was leery of trusting the advocates of funny money with their hard earned savings. Subsequently, the Branch abandoned its overtly social credit economic policies[2] and, to the outside observer at least, appeared to adopt conventional banking practices. A postwar building program was even designed to transform the appearance of some of the run-down buildings occupied by the Branches into the solid, dependable edifices thought to be typical of banks and worthy of public confidence.[3] Although the government still carefully avoided referring to the Branch as a bank because it was not chartered and Social Credit was worried that the courts might be induced to rule it unconstitutional,[4] the Branch had not evolved, as most scholars have assumed, into a bank in all but name. In the postwar era when the O'Sullivan and Sparling loans problems began, the Branch was still basically a social credit institution in spirit and only masquerading as a bank.

Behind the guise of a banking institution, the Branch's real purpose was still to rid the province of the financial tyranny except now the Branch was to compete directly with the banks and take away their business. The government's strategy was to strengthen the institutional base of social credit, first, by channelling government services through the Branch system, primarily to attract consumer and local government accounts and, second, by adopting an aggressive and liberal loans policy, primarily to capture the banks' business clientele. Loans to major business clients were tailored to enhance the government's overall post-World War II industrial strategy and to guarantee that, as the economy grew, so would the social credit infrastructure. When some of these loans are examined in detail, it becomes obvious that the Branch was still a social credit institution in more than theory -- it was also applying social credit economic concepts. Indeed, the combination of the Branch's social credit fixation on its clients' purchasing power and its aversion to orthodox loaning procedures proved particularly dangerous and was largely responsible for the creation of a number of large loans which the Branch had difficulty in recovering. Despite such difficulties, through the 1940s and early 1950s, the government and the Branch were largely indifferent to the repeated warnings of the provincial auditor and of two deputy provincial treasurers that its loans practices were inviting disaster. When a loan became troubled, the Branch might reluctantly adopt some of the recommended loans safeguards in theory, but it did not necessarily enforce those safeguards in practice. Only when the Branch developed such serious problems with a loan that it posed a significant economic and political risk to the government did it actually implement the kinds of safeguards bankers just took for granted. However, the government's faith in social credit economics remained unshaken by such problems and it continued to apply social credit economic theory in its other loans.

The O'Sullivan and Sparling accounts then were not isolated examples of troubled loans. Rather, they were representative of everything which was wrong -- and little that was right -- with the Treasury Branches in the postwar era: the risky extension of credit without proper regard for capacity to repay and the seemingly congenital inability to foreclose on bad accounts which were hallmarks of its social credit origins; the inept management, sloppy accounting, and blatant disregard for established guidelines and for discretionary loaning limits which were symptoms of its continued rejection of conventional banking practices; and the failure to establish an arms length relationship with the government which made it a captive of executive council decisions. In truth, the O'Sullivan and Sparling accounts constituted just the tip of an iceberg which threatened to sink the entire Treasury Branch system. It was not until after the 1955 election that the government finally recognized the dangers of such loans and actively pursued orthodox economic theory in preference to social credit theory. Until then, the Branch was a strange hybrid: a social credit institution in the guise of a bank, yet basically subject to immediate government control.

ii

The time is 30 September 1938 and Premier William Aberhart, Provincial Secretary Ernest C. Manning, and Provincial Treasurer Solon Low are about to announce the birth of the Treasury Branch system to their radio audience.

> Band Selection
>
> Attention please! We are calling all Alberta Citizens to attention!
>
> Another page in the history of progress in the Province of Alberta is being marked tonight!
>
> TIME MARCHES ON
>
> Band Selection
>
> Oh ye! Oh ye! Everyone! The will of the people must prevail.
>
> When a Sovereign, self-governing people desire freedom and the right to enjoy the fruits of their own labor, who should be allowed to prevent them!

> Yes, who should condemn them to suffering and privation.
>
> Band Selection[5]

As these few words indicate, the launching of the Treasury Branch was in many respects vintage 1930s Social Credit -- a combination of politics and radio drama, of anti-Ottawa invective and Alberta boosterism, of dire warnings about the "sinister control of our government from behind the financial curtain" and hopeful predictions about the potential purchasing power which the Treasury Branch would help return to the people.

Although the introduction of the Treasury Branches bore the unmistakable markings of early Social Credit,[6] it was not the same Social Credit which had first won election to government in the heady days of 1935. Social Credit's direct assault on orthodox economics, full of bluster and bombast which, if nothing else, seemed about to breach the fortress of finance, had given way to more circuitous attacks. The federal government and courts had barricaded the front door against wholesale social credit legislation and now the provincial government was introducing the Treasury Branch system so as to bring a modicum of social credit in through the back door. Beneath the broadcast's ideological rhetoric about People's Credit and the benefits of association and cooperation, the Alberta government, for the most part, was adopting quite orthodox measures to foster the province's economic development. But the intent behind these measures should not be mistaken. Social Credit still hoped to replace the evil instruments of the financial tyranny -- the banks and trust companies -- with honest social credit institutions such as the Treasury Branch.

As Solon Low explained to his radio audience that day, the Treasury Branches were not only houses for the deposit and withdrawal of money, they were also distribution centres where credit vouchers could be exchanged for non-negotiable transfer vouchers which, in turn, could be used to purchase retail goods from merchants who honored the vouchers.[7] In simple terms then, the government wanted to discourage public dependence on the cash economy which was controlled by the financial tyranny by substituting in its place a credit economy which would be controlled by the government. It also hoped to increase purchasing power by having the Treasury Branch reward consumers who used the vouchers according to the value of the Alberta-made goods they purchased. The reward, which was called a bonus, started at 3% and was the only true social credit economic measure in the Treasury Branch program. The bonus was literally intended to create purchasing power through bookkeeping, simply by marking the bonus owed in a ledger, and the government did not back it up with either a budgetary allocation or a reserve fund. Low later termed the bonus a "modest dividend."[8] Still another goal of the Treasury Branch, easily discernible in the workings of the bonus, was to encourage the purchase of Alberta-made goods. In this respect, the Treasury Branch was to work together with the Marketing Board, which was established in 1941 on the basis of the 1939 Marketing Act, to provide direct assistance to Alberta industries. The Board was intended to spur the growth of Alberta industries by augmenting their purchasing power. It bought raw materials in bulk and then resold the raw materials as they were required to Alberta industries for manufacture by Alberta labor, passing on the savings of bulk purchases and eliminating the costs of establishing and maintaining expensive inventories. The Marketing Board would work with the Treasury Branch to provide Albertans with a new route for the achievement of a social credit society.

The September 1938 broadcast was just one of numerous government attempts to convince the public to support the Treasury Branches and the Interim Program.[9] Other broadcasts featured guest performances by such mythical characters as George Interim, a prosperous businessman and Interim Program supporter, and Fred Kantsee, a not so successful colleague who did not honor vouchers or use the Treasury Branch. In the broadcast, Fred was eventually made to see and presumably went on to prosperity as a merchant participating in the Interim Program,[10] but in real life Social Credit had less success convincing the public of the merits of the Program and of the Treasury Branches.

Despite a government sponsored expansion program which saw the Treasury Branch system balloon from the five branches announced in September 1938 to a total of 385 agencies and branches by the summer of 1939,[11] the system was beset by problems. Early difficulties with untrained staff, inadequate in-house education programs, and organizational confusion were probably inevitable given the system's rapid expansion, however other problems were peculiar to the Treasury Branch. Retail businesses and particularly wholesalers who purchased outside the Alberta market would not honor transfer vouchers,[12] nor did the public entirely trust the vouchers or the bonus system.

Furthermore, most Branch managers and agents were initially selected by Social Credit MLAs in consultation with the Alberta Social Credit League (ASCL) Board and probably had political credentials superior to their banking qualifications.[13] To add to its problems, the start of World War II curtailed further expansion and robbed the system of management candidates, while the combination of wartime production and rationing undermined the Branch's economic policies which were based on insufficient purchasing power and an Alberta preference.

In 1941, the government tried to protect the Branch's social credit features by increasing the restrictions on the conversion of vouchers to cash and by requiring that purchases which qualified a consumer for the bonus be made up of a greater proportion of not just Alberta-made but Alberta trade-marked goods. Basically, to participate in the program, a merchant had to have a contract with the Branch. Although the bonus reward was sweetened to 5%, in Powe's view, the new restrictions limited the goods available for purchase by voucher so much that the system became impracticable.[14] Internal surveys soon began to recommend that, in order to facilitate public confidence in and use of the system, it was necessary that cash be increasingly used in place of vouchers and that a reserve fund be established in case the bonus "should by some outside action, be forced into liquidation."[15] The government had also been hearing from its MLAs, Social Credit group leaders, and Treasury Branch managers that the public's lack of confidence in the Branch system was partly attributable to the fact that the Branches were losing money. Not surprisingly, attempts to revise Branch economic policies in order to decrease the deficit and, particularly, to alter its token social credit measure--the bonus--meant that the more general conflict between the Aberhart and Douglas wings of the party would be replayed within a Treasury Branch setting as well.

As plans were drafted to improve the Branch's financial status and attract new customers by increasing Branch services and, for the first time, offering loans [16] the Douglas wing, represented by L.D. Byrne, countered that making profits would be deflationary and, thus, a betrayal of social credit economics. Byrne charged that Solon Low in focussing on profitability was employing orthodox economic principles to judge a social credit institution, the Treasury Branch.[17] The bonus feature, which actually was having a very limited economic impact was, as suggested, creating a cumulative deficit substantial enough for the Treasury Branch to worry about how it would be paid. Furthermore, the bonus required time-consuming, and therefore expensive, special accounting procedures to keep track of such items as voucher purchases of Alberta-made goods. Therefore, to enhance public confidence and cut costs, the government eventually decided to back the bonus with a reserve fund, eliminate the Alberta preference which would simplify accounting procedures, and lower the bonus to 2%.[18] Ironically, the bonus, which was to have created purchasing power just by making a bookkeeping entry, was being revised as part of an economy drive because it was costing the Treasury Branches too much money to make the ledger entries.

Most of these changes to the bonus were spelled out when Treasury

Branch Superintendent Olive and various cabinet ministers addressed a September 1943 conference of Branch managers called to discuss the government's upcoming reorganization of the Interim Program. In essence, as these officials explained the reorganization, they were also revising the philosophical orientation behind the policies which would guide Treasury Branch activities through the rest of the war and into the postwar era. The new orientation reflected a more conservative approach which placed a greater stress on business accounts but opposition to the financial tyranny of banks was to be undiluted. In fact, the Branch was to shift from its passive approach of providing an alternate institution, which the government had hoped the public would patronize in preference to the banks, to a more aggressive phase, in which the branches would compete directly to take business away from the banks.

Still, in certain respects, the government's approach resembled its introduction of the Treasury Branch system five years earlier. Once again, the government stated that it was seeking the results the people had demanded, which it now defined as "economic security for our people,"[19] but due to barricades erected by the financial tyranny, once again it was having to use a back door approach to obtain those results.[20] Thus, Low insisted that the bonus was still sound philosophically, but he admitted that other routes had now to be followed. However, branch managers were still urged to be proselytizers of the social credit message and of the Treasury Branch's policies and, although C.E. Gerhart distinguished nicely between Social Credit and social credit by emphasizing that they were not being asked to become involved in politics, "but at least [to] get on common ground for the truth of it," the truth was that the managers and the branches were still instruments of government policy and they were being invited to engage in Social Credit's conspiracy to deceive the financiers. They were to join local postwar reconstruction committees, to argue against postwar constriction of credit and to remember that the result they had been hired to produce was general public use of the Treasury Branch system to enable the government to gain control over credit creation and, as Gerhart explained, to "get that Shylock out of here."[21]

In other respects however, the government's approach had changed and the fate of the bonus was symptomatic of Social Credit's revised orientation. The Douglasites were right when they claimed that social credit economics were being pushed further into the background and that the government was making some accomodations with the business world. Out of the four original goals for the Treasury Branch -- the creation of purchasing power, a credit rather than a cash economy, government control over the creation of credit, and the promotion of Alberta industry -- the first was pursued only through the Branch's loans policy once the bonus was backed with a reserve fund; the second continued to lose ground although vouchers were still in limited use in rural areas throughout the 1940s;[22] and only the third and fourth really remained intact. The only route available, if the government was to gain control over credit creation, was to achieve general public usage of the Branches, and the managers were told that the Treasury Branch would have to engage in direct battle with the banks and trust companies and compete for consumer and business accounts. Expansion would have to wait till the war's end, but the managers could aggressively seek new business now. In addition, new customers could be attracted by offering more and better services which, by helping the Branches become financially self-sufficient, would also enhance public confidence.[23]

On the surface, the goal of promoting Alberta industry also seemed to have suffered due to the government's elimination of the Alberta preference to qualify for the new bonus of 2%. However, the government knew that the elimination of the Alberta preference did not constitute any meaningful abandonment of Alberta boosterism simply because the bonus itself had had a very limited impact on the provincial economy. Furthermore, a review of accounts collecting the bonus had shown Superintendent Olive that most were small, earned little revenue for the Treasury Branch and, as mentioned, cost too much to administer. The loss of these small accounts, should their holders close them as a result of the changes in policy, would not noticeably affect the overall volume of deposits in the Branch system.[24] Although the change to the bonus is best understood as an economy measure, there was one other subtle but important shift away from the original philosophy behind the bonus. Premier Aberhart had justified his economic policies by arguing that the proper place to increase purchasing power was with the consumer[25] and the bonus had been in keeping with this approach. However, Olive explained to the Branch managers that they were not to worry about the loss of the small consumer accounts but they were to watch carefully for the loss of any merchant accounts.[26] In another ironic twist, the small consumer accounts, which the managers were being told not to worry about losing, had been identified by Olive as belonging to the very people Aberhart had hoped to protect from the financial tyranny, to the poor within the existing economic system. Although the government did not abandon the concept of increasing consumer purchasing power -- witness its brief flirtation with the natural resources dividend in the 1950s -- the emphasis within the Treasury Branch was beginning to shift away from Aberhart's populist orientation. By the postwar era, the new customers the Treasury Branch would increasingly pursue were businesses and it was the purchasing power of businesses that the Branch would offer to increase through its loaning policies.

iii

The Treasury Branch which emerged from the 1943 conference was a strange hybrid, partly a social credit institution, partly an instrument of government policy, and partly a bank. Although the Branch increasingly assumed the guise of a bank as its public persona, beneath the surface, there had only been a slight change in the particular blend of the three °elements' making up the hybrid. In hindsight the most important change was probably that identified by the Douglasites -- the beginnings of the shift from a social credit orientation to the orthodox free enterprise orientation which much later came to characterize Manning's administration. But for most Social Credit members at the time, there seemed to be only a subtle change and even this was masked by the logic of following devious routes to obtain social credit. Accordingly, the social credit economic theory behind the bonus had not been abandoned, only the bonus itself was gone, and the government still hoped that the Branch would become the social credit institution which would replace the banks.

Besides, even though the bonus had changed, Branch and government personnel had not and many of the Branch managers and MLAs still stoutly believed in the bonus and the government still urged them to be social credit advocates.[27] Government advisors continued to fight against the elimination of credit vouchers which would damn Alberta to a cash economy and one, possibly L.D. Byrne, suggested his own version of devious routes when he proposed keeping the vouchers and investing available cash in Dominion bonds. In this way, he reasoned, the federal government, through interest payments on the bonds, would end up paying for the Interim Program.[28] The continuing influence of social credit on the Branch was evident, as will be shown later, in the philosophy behind its loans policy, and also in its preference for a service rather than a profit orientation. Many unprofitable agencies in small towns were kept open because the townspeople had no alternative institution at which they could bank. Although following the 1943 conference, the branches were to compete aggressively with the banks, Social Credit officially rejected a profit orientation and simply asked that the Branch system become self-sufficient.[29] The government's reticence was eloquent testimony to the continuing influence of the social credit belief that bank profits were bled from the credit of the people.

One of the reasons the hybrid nature of the Treasury Branch was in transition was the particular influence Manning was beginning to exert over its policies. Following Aberhart's death, Manning became Premier on 3 June 1943 and, after Solon Low's departure to federal politics, he became Provincial Treasurer on 12 September 1944. Under Manning's leadership, two contradictory tendencies, which to varying extents had been present during the Aberhart years, became distinctive trademarks of Alberta's Social Credit government -- the advocacy of decentralization and the exercise of strong executive council control. These two tendencies soon took their place along side the surviving remnants of social credit economic philosophy in guiding Branch policies.

Social Credit's advocacy of decentralization was evident in September 1943 in its rationale for the new services the Branches were to begin offering the public. The Branches were to become application and licensing agents for various government departments, government information bureaus, and estate service centers. The ideal being pursued was that each Branch would be a decentralized government service center imbedded in the fabric of each local community.[30] Of course, the government also recognized that this would encourage the general public to patronize the branches and it hoped each branch could, in this way, become so vital to the social and economic life of each community that even if Social Credit lost the government, its social credit institution would remain.[31] In part, the ideal of the Treasury Branch as a decentralized community-level government service centre reflected an immediate conservative reaction during World War II to both the internal threat of increased government control of daily public life and the external threat of totalitarian regimes but it was also a sign of Manning's distinctive influence within Social Credit.

Under Manning's direction, the evil financial conspiracy derisively denoted as "Shylock" by the party's anti-Semitic members was being recast. Although Manning still referred directly to the financial tyranny, he never seems to have condoned anti-Semitism,[32] and he was prone to redefine the entire conspiracy as one which aimed at establishing totalitarian control based on materialistic values by subverting British Christian democracy. Thus, in a memorable 1944 broadcast entitled "This Is a Crusade," Manning stated:

> The time is coming when this country will divide into two camps. On the one hand will be those who are prepared to lend their support to some form of State dictatorship, based on a purely materialistic concept of life. In the other camp will be those who are determined to see established in Canada a properly functioning Christian democracy based on the highest ideals of our British traditions.

Centralization, itself, regardless of motivation, could be regarded as part of the conspiracy because it was seen to diminish individual initiative which was fundamental to Christian democracy. Hence, Manning argued that "the greater becomes the centralized control of our institutions, and the less freedom and security which the individual citizen has, the more blatant and the more intense becomes the anti-Christian campaign."[33] In keeping with Social Credit's avowed opposition to centrism then, the Branches were to become instruments of the government policy of decentralization, helping to counter the internal totalitarian threat. Thus, when Solon Low explained the motive behind the Treasury Branch's new service center orientation, he stated that the "important thing ... is that if we are to have real democracy we must take right back into the districts the services and responsibilities which have gradually been brought into the central Government."[34]

Of course there was a logical contradiction in the concept of a central government advocating decentralization but also orchestrating how that decentralization would occur and, though Manning's exercise of power was more subtle than Aberhart's, in reality Manning ran a far more centralized government than his predecessor. His government's ostensible policy of decentralizing government services to the community-level Branch network had definite limitations in practice. For instance, the Superintendent had to approve all loans until 1943 and, even after that, the Branch's guidelines for loans were such that Treasury Branch Superintendent Olive and the Loans Committee, of which he was chairman in the late 1940s, could determine whether any major loan, no matter in which branch it originated, would be approved. According to Powe, the discretionary loaning limits of most managers were kept so low that almost all loans of any size were passed on for authorization to the Committee.[35] The low limits were partly a function of the Treasury Branch's problems in finding qualified staff. From the start of the war through the early 1950s, Olive and Manning were both aware that the Treasury Branch's relatively slow growth was to a certain extent attributable to the low quality of some existing staff and the lack of qualified candidates for new agencies.[36] Although this problem may sometimes have been cited as a convenient excuse for not locating an agency in a particular community when the real reason was political or economic,[37] it was nevertheless a real concern which lasted through the early 1950s. In response, Olive implemented salary increases towards the end of the war to attract qualified senior staff[38] and generally adopted more competitive hiring practices, but it was not likely that meaningful authority would be decentralized so long as the senior management did not entirely trust the judgement of some local managers.

There was also a strong element of authoritarianism backing the Manning government's approach to administration of the Treasury Branches and it seems likely that, in part, loaning limits were kept low intentionally to facilitate central control. It will be recalled that when the Branch system was first inaugurated, Social Credit claimed its establishment was in response to the demands of the people. Social Credit's mandate was to see that the people's will prevailed, and it was prepared at times to interpret this mandate as giving it the right to dictate the compliance of dissenters to the popular will.[39] Powe notes several "quasi compulsory features" of the Branch when it was first established, from penalties for converting vouchers to cash, to the basic requirement that merchants open accounts if they accepted vouchers, to partial payment of some civil service and government contracts with vouchers.[40]

Social Credit's desire to dictate mandatory patronage of the branches was still evident while Manning was Premier. At the 1943 conference, Gerhart reminded the managers that the government's original intent had been to compel the public to use the Treasury Branches through the Social Credit Realization Act but ruefully admitted that disallowance prevented compulsion.[41] Nevertheless, when Low explained the reorganization of the Branches in a later radio broadcast, he warned his listeners that "those who do not make use of it [the Treasury Branch] may not be utilizing to the full their privileges of citizenship."[42] With the privileges of citizenship hinging on patronage of the Treasury Branch system, the idea of compelling public support had obviously not died and obviously the government's plan to channel government services through the Branch required the public to frequent the Branch even if they did not bank there.

In keeping with the fact that an authoritarian approach demanded effective central control, some of the most effective reforms of the original Branch system were those which augmented the Superintendent's power within the Treasury Branch and facilitated his contact with the Provincial Treasurer. One of the strongest forces decentralizing power over the actual operation of the Branch system in the first years of its existence was the influence of the local Social Credit groups. These groups actively and often successfully lobbied to have Branches established in their towns, canvassed local merchants on behalf of the Interim Program and on at least one occasion were successful in having Aberhart overturn the Superintendent's decision against establishing an agency.[43] However, the party's influence began gradually to be circumscribed by the Superintendent, who from the start seems to have viewed party influence as undermining his own power. Superintendent Olive discouraged the selection of Social Credit officials as agents and argued that the appearance of direct party interference might alienate potential customers.[44]

By the later war years then, the influence of local groups and even of the provincial League had declined.[45] Lobbying for agencies was more apt to be carried on by local governments, or boards of trade than by local party groups and channelled through the constituency MLA or a cabinet minister, while complaints on loan refusals also generally bypassed the party organization. The decisions of the Superintendent and the Loans Committee also seem to have been more generally upheld when complaints were made to Manning, which may have reflected both the Superintendent's increased authority and a closer coordination of Treasury Branch operations with the executive council's wishes.

Under Manning, Olive's power was for some time on the rise. Manning vested in Olive much of the responsibility for the success of the revised Interim Program. When the government decided during World War II to eliminate some unprofitable agencies from among the 385 which had initially been established, Olive was given full authority by Manning to choose which agencies and agents were expendable[46] although MLAs or cabinet ministers sometimes interfered in the actual process. He was also responsible for choosing many of the agents and managers and, in 1948, he sought additional power to choose staff in Medicine Hat, Red Deer and Lethbridge. The significance of his request was that he was seeking to take the prerogative of staff selection away from the three influential MLAs who served those communities: Dr. John L. Robinson, the Minister of Industries and Labour, David Ure, the Minister of Agriculture, and 'Big Jack' Landeryou. Despite any objections of the three MLAs and the negative recommendation of the government's Director of Personnel, Manning granted Olive his request.[47] As the war came to an end, Olive was also chosen by Manning to select potential communities for Branch expansion, new building sites, and to oversee renovations of existing facilities.[48]

Olive's power within the Treasury Branch was partially due to his dual role as Superintendent and chairman of the Loans Committee which, in particular, gave him significant control over Branch loans. Until 2 December 1948, Committee approval of any loan required unanimous consent and Olive, like the other members, could veto any particular loan. However, as Chairman, Olive seems generally to have presented the loans for the Committee's consideration which gave him additional influence over its deliberations. When the loans affected other government departments, Olive was most apt to be aware of their opinions and if an interview with the customer was required, Olive was most likely to undertake it. Other members were hesitant to veto a loan approved by Olive, probably because his position as Superintendent made him most familiar with the circumstances of the loan, and the reliability of both the borrowing customer and the recommendation coming forth from the originating branch.[49] Finally, it was Olive who would know the Provincial Treasurer's attitude towards any really major or controversial loan.

Olive's relationship with Manning -- and the apparent trust and confidence placed in him by Manning -- was the single most important reason for Olive's power. One of the first reforms which was suggested to improve the Branch system was to give the Superintendent direct access to the Treasurer.[50] Legally, the Provincial Treasurer was responsible for all Branch loans since the Treasury Branch was a branch of the provincial treasury and every depositor and borrower automatically had entered into a contract with the Treasurer.[51] As Treasurer, Manning received the minutes of all Loans Committee meetings and, by 1945, a quarterly report on any loans which required special attention, in addition to updates when any important decision was pending.[52] Olive's direct communication with Manning, once he became Treasurer, seems to have lasted through the 1940s. Although by the early 1950s, Olive generally directed his communications to Manning through the Deputy Provincial Treasurer, the loss of regular direct contact was probably due to Manning's workload rather than any substantial loss of prestige on Olive's part. By this time, as will be discussed later, Olive had suffered several setbacks among his loans' decisions and had even been replaced as chairman of the Loans Committee, but his power was substantially unchanged. The new chairman seems generally to have acted in conjunction with Olive on controversial decisions and Manning continued to value and, in some significant instances, to follow Olive's advice. It will be seen that, in the late 1940s and early 1950s, Olive frequently went beyond his proper authority in direct defiance of the Loans Committee, the Provincial Auditor and even the Deputy Provincial Treasurer. He was able to do so only because he still had Manning's approval and was basically acting as an agent of the executive council.

The fact that Olive's power depended so directly on his relationship with Manning suggests the degree to which the Branch was subject to direct government influence. Although the actual extent of the Treasury Branch's independence varied greatly depending on who was doing the lobbying, at no time during the period under study did the system succeed in creating anything like an arm's length relationship from direct government intervention. Even into the 1950s political pressure, particularly from MLAs or cabinet ministers, could still lead the government to dictate to the Treasury Branch which Branches would stay open or be closed, regardless of the economic wisdom involved.[53] Local Branch agents were also subject to attack if their politics were not to the liking of the Social Credit MLA. Thus, Michael Ponich, following his election as Vegreville's MLA in August 1944, immediately tried to secure the release of the town's Branch agent who had not supported Ponich's election campaign. According to Ponich, the agent was most likely a Labour Progressive Party supporter and he darkly warned that the agent's presence was upsetting the local Social Credit group so much that it was bound to have a negative impact on the upcoming federal election.[54] Considering that managers were pressured to be social credit advocates, their political allegiance was probably more or less part of the terms of their employment. Even Olive and George Clash, the head of the Marketing Board, were tutored on the finer points of social credit economics by cabinet ministers such as A.J. Hooke.[55] As late as the 1950s, Branch managers were still not free to support the party of their choice. Although the Superintendent might defend an agent who publicly supported another party,[56] dismissal seems to have been the likely result if the agent in question was too active. In 1953, for instance, Manning ordered the closing of the Donnelly agency, which was an indirect way of firing the politically active agent. When Solon Low, in whose federal constituency Donnelly lay, complained, Manning explained that he had ordered the agency closed "when the Agent concerned took an active part in the campaign of the Liberal candidate in that constituency." According to Manning, political participation of a limited nature was acceptable but this agent's "flagrant" actions aroused the local Social Credit organization and led to the closing.[57] It would probably only require occasional examples such as the Donnelly firing for the acceptable parameters of behavior to be well-established within the still relatively small Branch system.

Although individual MLAs or cabinet ministers could impinge on the Branch's independence of action, the most serious interference arose when the government used the Treasury Branch as an instrument of government policy. Publicly, Social Credit might insist that an arm's length relationship existed between the government and the Branch but such was not the case. Many of the Branch's large loans seem to have gone to cabinet for final approval. The executive council could simply mandate that the Treasury Branch enter into a particular loan. In the summer of 1946, for instance, the government engaged Lassiter's Limited to clear some land for the establishment of returning war veterans and provided Lassiter's financing via a direct contract with the Provincial

Treasurer which was exercised through the Treasury Branch.[58] For years the Lassiter's loan was considered doubtful of collection and was one of the Provincial Auditor's black marks against the Treasury Branch in his annual report, yet as Olive complained to Manning, at no time had the Branch had any of the kind of control over the Lassiter's operations which might have helped it secure repayment. Although Olive admitted the value of the service Lassiter provided by clearing land for cultivation, he predicted a loss of $290,000 on their $317,000 loan.[59] Lassiter's assets were eventually sold under the direction of the Marketing Board in the mid-1950s.

The Treasury Branch did not have to be subject to direct political influence when a specific loan decision affected a region, or a particular MP or MLA, for when it came to politically sensitive decisions, Olive and the Loans Committee tried to anticipate the executive council's wishes and act accordingly. A loan to Lee Borden, who ran a lumber company in the Peace area, provides an example of this type of Committee decision. Borden seems to have been a dependable operator who sought and paid off increasingly large Branch loans through the late 1940s ranging to just over $100,000. In 1951, he sought a loan of $100,000 above his existing loan of $110,000 to take advantage of a good lumber market and the availability of labor arising from a local crop failure in the Hythe area which had left dozens of farmers looking for outside work. The Committee officially termed the total credit request of $210,000 "excessive," given Borden's collateral but approved it any way because of the strength of the lumber market and the negative impact the crop failure was having on the region.

Basically, the Branch was taking a calculated risk and it warned Borden that his larger credit was not to be taken as a "precedent for future seasons' assistance."[60] Although the Branch's support for a regional economy might have been admirable, it was the role of the government and not the Branch to provide the region with an aid package. It is also worth noting that the Hythe area was part of Solon Low's federal constituency and the provincial government was very actively supporting Low and giving him credit for various provincial government initiatives taking place in the region.

Treasury Branch independence was also constrained by its relationship with other government agencies such as the Marketing Board and the Alberta Industrial Corporation. As previously mentioned, the Treasury Branch and the Marketing Board were originally intended to work together, and Olive and Clash were in close collaboration on many decisions which were of mutual interest.[61] When the Marketing Board offered to support an industry by purchasing the materials it required for manufacture, it could borrow the money through the Treasury Branch.[62] The arrangement was seen as beneficial to the Treasury Branch since it received new business in this way, however all Marketing Board loans were subject to executive council approval which indirectly facilitated its control of Treasury Branch loans.[63] Complications could easily arise if the Marketing Board's customer decided to seek additional financing, separate from its Marketing Board loan, from the Treasury Branch. With such an arrangement, the decision of either arm of the government to alter its credit arrangement with the customer had immediate impact on the other arm. Both wisdom and convenience dictated a coordinated policy. In practice, Olive and Clash worked together very closely,[64] and the executive council's direct control over the Board's activities further facilitated its indirect control of Branch loans. Furthermore, if Treasury Branch loans to a business were at risk and the business required operational assistance, the problem would be referred to cabinet and the firm could be placed under the direct supervision of Marketing Services Limited, which was the operative arm of the Marketing Board.[65] The situation described above became even more complicated if the Alberta Industrial Corporation was also assisting with finances, since AIC funds were also extended through the Branch,[66] or if a customer depended for most of his income on government contracts. Lastly, as will be shown later, a coordinated decision by different arms of the government to cut off support could spell disaster for a particular customer, although it could greatly benefit a competitor who was interested in a corporate takeover.

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The Manning government pinned much of its hope that the Treasury Branch would provide Alberta with a social credit institution which was central to the provincial economy on the Branch's attempts to win business accounts from the banks. Indeed, Superintendent Olive's key responsibility under the revised Interim Program was to lead the Treasury Branch into battle against the banks. Manning made his expectations of Olive clear in a request that the Loans Committee reconsider a loan it had refused to a Cochrane business: "As a general practice I would like to see the Treasury Branches able to give at least equal consideration in the way of loans and overdrafts .... [as its clients] could have obtained from the Banks if they were carrying on their business there." He reminded Olive that, only if the Branches offered comparable service, would the public withdraw their business from the banks and use the Branches.[67] Although Manning mandated the Treasury Branch to behave much like a bank, neither he nor Olive was about to accept all of the orthodox economic practices which underlay the banks. The Branch was simply to mimic the banks in behaviour much as it mimicked them in appearance. The Branch's partial rejection of orthodox economics becomes obvious when its loan procedures are examined. The quasi-social credit nature of the Branch's loaning practices will be exmained later.

The Branch's loaning power was to be its primary weapon in attracting business clients and, since a large and vital business clientele was essential to the success of the revised Interim Program, Olive aggressively pursued new borrowing customers after 1945. In theory, the Branch's loaning practices resembled those of any bank, although it should be kept in mind that there was often a vast difference between theory and reality. Like banks, the Treasury Branch offered loans based on the client's moral character, his earning power, and the collateral he had available as security and it emphasized the restriction of all loans to a short term basis which, typically, was not to exceed one year although for certain classes of capital assistance two year terms were given. Short term loans were standard with banks and they were in keeping with the social credit idea that increasing the 'velocity' of credit exchange augmented purchasing power. However, it was probably more important to the Branch that its loans circulate rapidly because, as a general policy, the Branch only made available for loans an amount equal to 40% of current account deposits and 60% of saving account deposits. With a relatively small deposit base, rapid repayment was essential to maintain the Branch's loaning power.[68]

Unlike banks at that time, the Treasury Branch loaned money based on the security of real estate, though it usually demanded a note as well as physical security.[69] The Branch's policy of accepting real estate collateral, theoretically, gave it greater flexibility in extending loans to marginal operations. The major danger for the Treasury Branch was that if a business loan was protected basically by real estate or by a combination of real estate and chattel security, rather than by the more 'liquid' combination of cash, saleable merchandise, and receivables favoured by banks, then that business's capital assets had to be productive to reduce the loan.[70] Other risks which are always inherent in the acceptance of real estate as security can be seen when Branch loans to hotels are examined, although it should be noted that most of these loans appear to have been successfully repaid within their specified terms. Naturally, the worth of hotel properties fluctuated considerably with the real estate market but, apparently, the Branch was lax in monitoring current values. Several hotel loans were for substantial amounts -- 15 for $327,000 in 1948 -- and the provincial auditor, C.K. Huckvale, had considered one of these to have required close supervision for several years.[71] The Deputy Provincial Treasurer, J.F. Percival, generally shared Huckvale's concerns and he argued that loans for the purchase of hotels were based on inflated values which did not take into account the renovations which were required to maintain real estate worth, and that, as a matter of policy, such loans should be restricted to 40% of the purchase price. Percival also opposed loans for hotels on the basis that they were for private gain rather than productive purposes,[72] which was his reminder that the potential contribution of a business to the industrial development of the province was also supposed to be taken into consideration in all Branch loan decisions.[73]

In reality, the Branch's hotel loans were probably bad politics more than they were bad risks. The value of hotels was generally admitted to be more closely tied to the sale of beer than to the tourist industry and opposition parties pointed out that the government was not apt to cancel the liquor license of a hotel which was indebted to the Treasury Branch, emphasized the risks involved in real estate collateral when the Branch had no qualified appraisers, suggested that some of the hotels were partly owned by Social Credit MLAs, and alleged that two, the Wainwright and Fort Saskatchewan hotels, had received loans for $50,000 on the basis of $60,000 evaluations. Although Olive defended his hotel loans and claimed they were based on a maximum of 60% of appraised values and Manning emphatically dismissed the opposition's charges as "ridiculous,"[74] Social Credit was not on familiar ground in defending loans to dispensers of beer. Furthermore, in one or two instances Huckvale's and Percival's warnings were at least partially valid and a couple of hotel loans tied up Branch capital and remained doubtful of collection for many years.[75] It was probably to be expected that some problems would arise from the Branch's acceptance of real estate security simply because it was still a fairly novel practice and financial institutions were learning some of the appropriate safeguards through experience. More importantly, the laxness Huckvale and the opposition identified in assessing the value of real estate security for hotel loans could often be found in its handling of both real estate and chattel securities for other types of loans.

For instance, the Treasury Branch advanced large sums to several feeders associations and smaller sums to many farming operations based largely on real estate, chattel and farm produce security, and the auditor cited the same problems in monitoring the value of these securities. Olive was particularly interested in gaining feeders association accounts because they provided a conduit for the Branch to obtain the desirable farm accounts of their members and he encouraged the government to ammend the Feeder Association Guarantee Act of 1937 so that association accounts would automatically go to the Treasury Branches.[76] From the minutes of the Treasury Branch Loans Committee meetings which have thus far been made public it does not appear that the Branch extended loans based largely on real estate value to benefit marginal farm operations. Rather, the Committee favoured larger, better established farmers,[77] an approach which was consistent with Olive's more general postwar concerns about attracting a successful business clientele and which, incidentally, helps to explain why repayment problems seem to bave been fairly limited despite the Branch's lax monitoring of its farm loan securities during a period when many small farming operations were going under.[78] In any case, agricultural loans, except for those to the feeders associations, were generally modest so that the risk on any one account was minimal.

In retrospect, Huckvale might be chided for being overly cautious in his attitude to agricultural loans, but his warnings still merit close attention because to a remarkable degree they mirror his concerns about several of the Branch's large commercial and industrial loans. Assuming his most staunchly conservative fiscal stance, Huckvale argued that the Treasury Branch advanced agricultural loans without the services of an expert appraiser who could determine the precise value of chattels held as security and subsequently that the Branch's evaluation of such chattels was often inflated; that chattels were often improperly registered; that the Branch did not monitor assets held as security and they were sometimes sold by the borrower without any repayment of the loan; that the Branch did not monitor fluctuations in the market value of farm produce which could dramatically affect repayment potential; that some loans were repeatedly extended or else the monies were repaid and then rapidly reborrowed so that the loans were functioning, in practice, as continuous capital advances; that tax arrears on such long term loans were not taken into account; and that, when repayment problems occurred, the Branch was far too reluctant to liquidate assets and thereby recover its loan.[79]

Huckvale's cataloguing of the Branch's careless loans practices reflects more than just the typical concerns of a cautious auditor and provides evidence that more than just inept or sloppy management plagued the Branches. Huckvale was identifying problems which were so prevalent that they may be considered to have been system-wide. Basically the same problems were apt to arise with loans originating under Olive's direct supervision as with branch loans, with large and small loans and with loans to every sector of the economy. The Treasury Branch's loans practices simply did not conform to standard banking procedures; in fact, they reflected disdain for the cautious loan procedures of the banks.

The conventional wisdom banks favoured when they provided credit was masterfully portrayed by E.L. Stewart Patterson, a former superintendent of the Canadian Bank of Commerce, in his 1941 tome Canadian Banking. "Sound banking," he solemnly proclaimed, "is predicated on a conservative loaning policy..." Yet on the surface, many of the guidelines Patterson detailed strongly resembled the Branch's approach to loans. In determining a potential borrower's responsibility, Patterson stated, it was the banker's first duty to examine the three C's: character, capacity and capital. Capital alone was never enough; he must carefully examine the integrity and disposition of the borrower for credit was a "question of ability to pay coupled with an intention to pay."[80] As stuffy as Patterson could make the three C's sound, the Branch was employing the same standards when they judged a borrower by his moral character, earning power and collateral.

Beyond these surface resemblances and time-honoured bromides however, Patterson explained a series of tests which could be applied to determine the safety of a loan. The three C's were not sufficient. The banker had to know about the nature and organization of the borrower's business, his competition and business methods, and his net worth. He had to obtain outside opinions about the client's business and be able to analyze his accounts to spot potential problem areas such as an over-investment in capital assets or inventory, too great a dependence on receivables, under-capitalization, and sales problems.[81] As a final "acid test" for making a loan, Patterson rejected the old conservative '50% rule' that liabilities should not exceed one-half of quick assets and argued instead that the needs of modern business demanded the more flexible standard of allowing a customer's current liabilities to equal but not exceed his cash and receivables. The banker's responsibility was not completed when the loan was made. He had to make sure that a loan made for the creation of further liquid assets was not "improperly diverted into building, real estate or other fixed assets." Undercapitalization, Patterson emphasized, although often the apparent cause of loan failures was not necessarily the "primary condition." Incompetence, inexperience, speculation and extravagance could also be at fault. Finally, the unauthorized overdraft should be seen for what it was -- the borrowing of the bank's money without consent -- and carefully guarded against since the customer's liability was not established and no repayment date was fixed.[82]

There was a stark contrast between Patterson's description of standard Canadian banking procedures for discovering and maintaining the safety of a loan and the deliberate flaunting of these safeguards which was the reality of the Treasury Branch's loaning practices. Some of the Branch's problems might be attributed to the necessary adjustment to accepting mortgage security -- an adjustment the banks also had to make with the Bank Act changes of the 1950s[83] -- but the Branch had not really even accepted the basics of risk evaluation. The Treasury Branch's Loans Committee too often made its decisions with only the most basic knowledge of its customer's assets, liabilities and productive capacity and, on occasion, without a thorough knowledge of outside debts or any official financial statement whatever. It applied only the most rudimentary criteria in determining the capacity of a customer to repay a loan and, when loans became troubled, was often unable to pinpoint the problem or was too apt to attribute the difficulty to undercapitalization.[84] There was something cavalier in the Branch's disregard for the kinds of precautions Patterson regarded as very nearly sacred.

The Committee may have lacked some of the requisite skills to identify the causes of repayment problems, particularly as its clientele grew from agricultural and lumbering concerns to include more industrial customers, but most of provincial auditor Huckvale's complaints were aimed at the simple failure to apply the guidelines which the Branch theoretically accepted as standard for making loans. Huckvale's problem was that neither Manning, nor his government, nor Superintendent Olive accepted the actual necessity of the fiscally conservative measures he believed were integral to sound banking because they still associated such measures with the financial tyranny of banks and they still believed that tyranny was intent on robbing credit from the people. Conventional banking procedures had only been partially incorporated within the Treasury Branch because the Manning government had thus far accepted much of the form but not all of the substance of orthodox economics. In 1942, L.D. Byrne had complained that the government's audit department was openly derisive of the Interim Program and he had intimated that the Treasury Branches should not be subject "to an over-riding inspection by men who apparently have no knowledge, nor the inclination to acquire any knowledge, regarding the Treasury Branch system."[85] Of course, Byrne had understood the Treasury Branch to be a social credit instrument and the kind of overtly social credit policy he had favoured had basically been abandoned by 1943. What remained after the demise of Douglas-style economic prescriptions was a combination of the government's dislike of the fiscally orthodox banking policies and procedures by which the auditor continued to judge the Branch's performance, and a belief in the benefits of a rather fuzzily defined social credit society where economic security would prevail once the banks were driven out of the province and the government controlled credit creation. It was a dangerous combination for at the same time that the Branch's disdain for orthodox economics tempted it to ignore standard safeguards for its loans, the continuing influence of its social credit heritage tempted it to identify its customer's repayment problems as resulting from a shortfall of purchasing power and to advance additional monies to make up that shortfall. Furthermore, although the Branch generally required real estate or chattel security for its loans it seldom forced liquidation of collateral assets. In part because of its depression era social credit background but more directly due to political sensitivities, the Treasury Branch avoided foreclosure at almost any cost.

As has been mentioned, Huckvale's numerous attempts to persuade Olive to follow established guidelines were generally in vain because neither Olive, nor other senior officials in the Branch, nor the government believed in those guidelines. For instance, several of Olive's branch managers habitually exceeded their discretionary loaning limits and authorized unsecured advances on existing loans. After years of repeatedly reprimanding Olive for failing to discipline his managers, Huckvale finally tried to convince Manning that the existence of the problem might "be due in part to the fact that the Superintendent ... takes it upon himself to exceed his own authority in his personal direction of several of the larger accounts."[86] In Huckvale's view, the lack of disciplinary action could be traced directly to the example Olive was setting. Huckvale's diagnosis was almost certainly correct. Not only did Olive not take Huckvale's warnings seriously, he basically saw no need to change his own or his managers' loans practices.

The problem with discretionary loaning limits was partly due to the peculiar nature of the Treasury Branch. Until 1943, head office approved all loans[87] but even after this the centralized nature of the Branch meant in practice that branch managers had such limited decision making powers that they were almost bound to exceed their discretionary limits in the normal course of providing service to some of their clients. Businesses, for example, could not always await the weekly meeting of the Loans Committee to approve an emergency advance of funds. Although Olive's discretionary limit had increased from $1,000 in 1944 to more than $5,000 by 1948,[88] he could not always be reached even if a local manager sought his okay. It seems likely that, under certain conditions, local managers simply began unilaterally to authorize loans above their limits. To counter this temptation, which would naturally increase proportionately with the customer's importance and the value of his loans, Olive would probably have had to insist on a rigid interpretation of Branch guidelines. Political sensitivities might have militated against Olive undermining the initiatives of local managers and, like those managers, he would not have wanted to risk the loss of a major account but most importantly, as Huckvale complained, Olive did not really disagree with deviating from Branch guidelines in the first place, particularly if it was necessary to please an important customer. Olive's condoning of branch irregularities undermined one of the basic advantages of the branch system which attempts to counter the loss of objectivity of the local manager when dealing with a major client with the cool impartiality of the superintendent.[89]

In his personal handling of accounts, Olive not only exceeded established guidelines, but at times he also showed very questionable judgement. According to Huckvale, Olive was in the habit of using his discretionary limit to maintain a perpetual overdraft on his own account, a privilege that seems to have been extended to at least one other Branch official.[90] On one occasion, a Social Credit MLA was apparently allowed an unauthorized overdraft at the main branch.[91] Olive sometimes approved loans to valued Treasury Branch customers prior to Loans Committee meetings even when he had to exceed his loaning authority to do so. In most emergency situations, rather than making a decision himself, Olive could have summoned special meetings of the Committee or have obtained phone authorization and, in fact, he sometimes followed these procedures, but often he acted unilaterally without trying to contact the Committee.[92] It must be remembered that every time Olive gave prior authorization for a loan scheduled to go before the Loans Committee or exceeded his discretionary limit, he was actually usurping the authority of the Committee. It was a dangerous precedent, particularly when the loans sometimes amounted to more than one hundred thousand dollars or when they involved borrowing customers such as Solon Low, where partisan considerations might be perceived to have influenced Olive's decision.[93] Although the Committee subsequently approved Olive's unilateral decisions during the early 1940s, as will be seen, it began to balk later that decade. Eventually, Olive's habit of bypassing the Committee forced it to refuse to sanction his actions, which in turn forced the intervention of Premier Manning. At that point, the Committee learned what should have been obvious all along: Olive may have acted independently of the Committee but he had the approval of Manning and the cabinet.

One reason the Committee began to oppose Olive was that he was no longer just approving loans which were relatively close to his limit or larger loans which were most apt to be to local government authorities or feeders associations with which the Committee was quite familiar.

By the latter half of the decade, Olive was unilaterally approving credit advances on loans worth hundred of thousands of dollars to industrial concerns with which the Committee had less familiarity and where a greater risk factor was clearly present. In fact, as suggested, most of the problems the auditor identified applied equally to large loans under Olive's direct supervision as to smaller loans at the branches. In particular, Huckvale was concerned that several large loans were allowed repeated renewals and advances beyond their specified term or were repaid and then rapidly reborrowed so that they were, in effect, operating as continuous capital advances.[94] Long term advances were counter to the Treasury Branch's short term policy but, to Huckvale, it was more important that the loans appeared in some instances to exceed their terms because the customers were simply unable to repay them. Problems with repayment were of course compounded by the Branch's improper registration and supervision of chattel securities and by the fact that, until 1948, it had no reserve fund to cover bad loans. In such cases, the Branch seemed unable to enforce repayment schedules and unwilling to liquidate assets or foreclose to force repayment. Yet it also refused to suffer a loss and, as a result, it tended to authorize additional advances to protect its original loan.

Both the Treasury Branch's reluctance to liquidate to recover a loan and its unwillingness to admit a loss on a particular loan further illustrate its lack of an arm's length relationship to the government. A good measure of the Social Credit goverment's credibility was invested in the Treasury Branch and there were obvious political considerations to take into account. In keeping with the government's directives, the Branch was trying to attract prominent individuals and companies as customers, who in turn might bring in their colleagues as additional customers, and a liberal loaning policy was one method of doing that. Too many foreclosures could rapidly erode the Branch's attempt to build a reputation for sound, business-like management but it could also have more direct political costs since the Branch's policies and performance were watched by suspicious opposition parties. As a result, when the opposition questioned Olive during Public Accounts Committee proceedings both he and Manning denied any hint of Branch difficulties both to protect the Branch and the government. As will be seen in Chapter 3, the government's partisan defences against equally partisan attacks contributed to a tendency to cover up all Branch problems, a tendency which escalated through the 1940s and reached a peak during the 1955 election and the subsequent Royal Commission.[95]

Olive's public denials of the Branch's loans problems were not just politically motivated; they also seem to have been genuine expressions of a belief that the Branch's loans problems were, in reality, minimal. In memoes to Deputy Provincial Treasurer Percival and Manning, Olive aggressively rebutted most of Huckvale's concerns about doubtful loans even when those concerns became more and more acute as the loans escalated dangerously. In 1946, when he finally and reluctantly admitted a number of accounts might be considered doubtful, he still steadfastly argued that most would "in all likelihood be recovered" later. Furthermore, he disagreed with Huckvale's selection of doubtful loans. According to Olive, while "it is true that a limited number of accounts have developed where early repayment would be dependent on liquidation of assets in part, we feel that the auditors are unduly apprehensive regarding the specific loans mentioned."[96] In place of Huckvale's increasingly gloomy portrayal of the Treasury Branch, Olive reported on an institution which was attracting new business and was gradually increasing the value of its loans and deposits, an institution which was making favorable, though not spectacular progress[97] and had, in 1946, recorded its first profitable year.

The fact was that Olive simply did not believe in the validity of the auditor's warnings because, like Byrne, he did not believe in the yardstick by which the auditor was measuring the Treasury Branches. In opposition to the auditor's 1946 warnings that several long term problem loans had evolved into ongoing capital investments,[98] Olive informed Manning: "Loans in general can be considered well selected and of a good class" but admitted that since, logically, some losses might occur, a $25,000 fund should be set aside.[99] By the following year, Huckvale's audit revealed a number of large loans totalling well over one-half a million dollars which required "special attention and the enforcement of a strict collections policy if losses are to be kept to a minimum."[100] The auditor's concerns were often reiterated by Percival who, until his death in 1949, may well have been the strongest voice of fiscal orthodoxy within the Treasury. Noting the Branch's problems with large non-liquidating loans, in 1946 Percival urged Olive to adopt more conservative loaning policies and avoid long term loans without a "substantial margin of security based on a conservative valuation of assets."[101] By the following year he was expressing concern "with the number and amount of loans which appear inadequately secured by chattel mortgage on livestock, machinery and equipment, or assignments of contracts etc." Percival believed, in some cases, that the Branch's liberal loaning policies were allowing its retail clients to pass on credit to their customers, that records of securities were not being updated or verified, that there were too many unsecured, unauthorized overdrafts, and that there were too many loans for "excessive amounts," many of which were established through the Head Office. Percival concluded by not too subtly informing Olive it was time he exercised greater caution: "You have built up a substantial loaning clientele; and I think it is an opportune time to give special attention to any accounts which are not wholly desirable and which are inadequately secured."[102] In contrast, Olive suggested to Manning at the close of the year that only $24,037 in loans should be considered 'bad' or 'doubtful'.[103]

As Huckvale and Percival realized, the combination of the Branch's disregard for standard safeguards when making loans, its breeches of discretionary limits, its habit of allowing unauthorized advances, its belated realization of the need for a reserve fund for bad loans, and its tendency rather than forcing liquidation to protect loans by approving additional advances, together, constituted a loaning formula which could easily have led to the system's bankruptcy. The Treasury Branch was protected from that fate by a number of factors: it was still officially a service oriented government institution and was not expected to make a profit; it sought out borrowing customers who were successful businessmen with substantial capital assets which minimized loan failures; and perhaps most importantly, Alberta's economy was generally buoyant, particularly following the Leduc discoveries. Nevertheless, there was one further element which completed Branch's loaning formula and actually did threaten to bankrupt the Treasury Branch system. It was known as the pyramiding of loans and it was basically the process of extending additional credit to a borrowing customer, regardless of whether a satisfactory repayment record existed on the original loan. Pyramiding which was basically a hangover from social credit economic theory, was fundamental to the government's strategy of building a strong Branch based in part on its business clientele. Eventually the Branch's pyramiding loans amounted to millions of dollars and there was so little chance of satisfactory repayment that the Branch had to seek special help from other government agencies, including the Department of Public Works, to bail it out.

[v]

Pyramiding ran counter to every principle of sound banking -- although, in unique circumstances, it might be practiced by banks -- but it was not at variance with social credit economics and its practice seems to have been all too frequent in the Treasury Branch. The Branch could implement pyramiding to sponsor the growth of a client or to rescue a client when his loans became troubled. Partly because the Branch lacked the skills to identify the actual causes of either unprofitability or repayment problems, it tended to attribute a business's difficulties to the one cause with which it was most familiar -- the lack of purchasing power. As it was practiced by the Treasury Branch then, pyramiding was the naive belief that the extension of additional credit to a borrowing customer -- to enhance his purchasing power in the market place -- would create the profit margin necessary for his economic viability and the repayment of his loan. Pyramiding seems generally to have been used with cabinet approval. In one sense, the government provided incentives when it allowed loans to pyramid but pyramiding is also tangible evidence that the government was still attempting to employ social credit economics. The dual role of pyramiding provides an example of the logic of following devious routes to achieve a social credit economy. Pyramiding could find favour with business, when viewed as a government incentive, and at the same time satisfy social credit advocates both that the government was applying the correct social credit strategy to an economic problem and, that by using the Branch as the credit instrument, it was enhancing the Branch's profile relative to that of the banks.

There were already instances of pyramiding which were causing serious concerns by the end of the war, but in the postwar period, as the Treasury Branch began extending larger loans to more industrial concerns and as some of these loans developed repayment problems, pyramiding soon began to threaten the survival of the Branch system. When Huckvale and Percival warned about problem loans, they generally cited the same accounts. When a few of these individual accounts are examined, a common pattern emerges. First, the accounts all belonged to customers who were valued by the government and the Branch because of their importance in a particular economic sector or region of the province. The government's economic development plans, the economic well-being and growth of these clients and the future well-being of the Treasury Branch were viewed as linked and, in keeping with that importance, fairly liberal credit limits seem to have been established and often the loans were allowed to pyramid. Each of the loans then reached a stage where repayment difficulties arose which, in turn, alerted the attention of Huckvale or Percival. Whichever one was involved would then warn the Branch about the particular problems his investigations had revealed, which might include the kinds of chattel security irregularities already shown for hotel and agricultural loans, unauthorized advances, internal problems within the client company, inadequate capitalization, or a slump in current market conditions, and he would caution against authorizing any further advances until the customer's ability to repay was proven by substantial reductions on the existing loan. In response, Olive and the Loans Committee generally defended their actions and ignored the warnings. Although they might go through the motions of arranging additional securities against the particular loan, the same problems with registration of the new securities could re-occur. To the extent that conventional banking practices were employed, it was often just a show to satisfy Huckvale or Percival.

The Branch's next step was not to enforce a realistic repayment schedule but to grant further advances to protect the loan or, in some cases, even to authorize advances which pyramided the loan still further. If the loan was pyramided, the additional monies might again be provided without any real demand for regular reductions or the Branch might allow monies assigned for repayment to be diverted to expansion and provide additional advances for operating expenses as well. Pyramiding, of course, increased the Branch's dependence on its customer's ability to realize a profit from its fixed capital assets.

After a client's credit had been extended by pyramiding, the next stage varied depending on the particular borrowing customer. Some had the managerial expertise and productive capacity to deal with their increased debt loads and eventually repay their loans just as the Treasury Branch forecast. Others, due to a combination of management, production and marketing problems -- which might have caused the repayment problems previously identified by Huckvale and Percival -- were saddled with debts far beyond their abilities to pay. When the Branch's clients continued to experience repayment problems despite the pyramiding of their loans, the Branch was forced to reevaluate its tactics which, in turn, could result in policies ranging all the way from the actual application of the standard safeguards it had supposedly instituted previously together with enforced liquidation on rare occasions, to moderate advances to protect existing loans from other creditors, to a further pyramiding of loans in a recklesss escalation.

The various Robinson business accounts, which originated in a Calgary branch in the 1940s, provide a prime example of most of the phazes of pyramidding. As early as October 1944, the auditor had pinpointed Robinson Machine & Supply Co. Ltd. with a loan of $75,622 as requiring strict supervision to ensure repayment.[104] Although at that time, Olive and the Loans Committee were optimistic of repayment, they warned Robinson that no additional credit would be granted and that if he failed to implement the agreed upon repayment plan they expected him "to seek accomodation elsewhere."[105] The problem appears to have been that the Committee doubted the validity of the auditor's concerns and was reluctant to enforce its repayment schedule. It tended to view each significant payment on the loan as evidence of Robinson's reliability, which justified further advances so that, in the short term, the total debt did not change very much. In the summer of 1946, Huckvale still considered the Robinson loan doubtful and he singled it out as an example of a loan which was unlikely to be repaid without the introduction of outside capital to improve profitability.[106] Nevertheless, Robinson managed to reduce the loan to $31,985 by the fall and Olive predicted it would stand at less than twenty thousand dollars by the year's end. He advised Percival and Manning that the "account is now operating satisfactorily and we look with confidence to see total liquidation during the next year."[107] Had the auditor been wrong?

A clue to the answer is found in his 1947 report in which the Robinson loan was still considered to require special attention although the amount owed had indeed been reduced to $21,525. The difference was that now the Treasury Branch had also loaned substantial sums to Robinson himself and to Robinson Engineering & Development Co.

Ltd., bringing the loans back up to approximately $93,000.[108] In the following two years the Branch's problems with the Robinson loans continued until, by 1949, the loans had pyramided to some $178,000.[109] In effect, the Branch had supplied the additional capital the auditor, in 1946, had said Robinson required if he was to earn sufficient profits to make eventual repayment possible. Unfortunately, the Branch's increased financial support failed to turn the Robinson interests around and, during 1949, the Loans Committee was finally forced to abandon pyramiding and adopt tougher policies to force Robinson to repay.

The loans were still theoretically being carried on a liquidation basis in 1949 and Robinson was told to sell two of his companies or to find outside capital. Robinson appealed the Committee's decision to Manning but the Premier backed up the Committee.[110] The Branch's refusal of additional credit actually forced the closure of Robinson Engineering and Robinson Equipment and loans reductions were made but, thereafter, the Loans Committee's hard line approach was sporadic at best as it continued to back Robinson Machine. Despite the fact that the Committee was reluctant to continue the account, further attempts to limit credit were generally shortlived, as Robinson successfully appealed refusals to Olive, promised repayment and eventually even found outside backers.[111] A terse notation in the Loans Committee minutes of 18 January 1950 reveals the real reason for its continuing advances to Robinson: "Loss of account would occur if not done." With the $10,000 advanced that day, Robinson Machine's loan increased once more to the still fairly modest sum of $60,085. Shortly thereafter, Robinson found outside backers and started to repay his loans, so the Branch once again extended additional credit even though the original loan was still not paid off. The Branch may have been influenced by the fact that Henry Lewis Spady, Robinson's new backer, was also the partner of A.J. Hooke, the minister of Economic Affairs, in a firm known as Ideal Homes, which was also a Branch customer.[112] By late 1951, loans totalling over $160,000 were advanced to Robinson; requests for an additional $50,000 were refused then approved on appeal and, as repayment problems resurfaced, the Treasury Branch began to relive its past problems.[113] By 1954, Robinson's loans had increased to $263,000, the most recent $66,000 of which the Loans Committee admitted having advanced "because the company is experiencing serious financial difficulties and is unable to liquidate the original loans as agreed."[114] As had been the case since the loans first became troubled a decade before, the Treasury Branch and the government seemed incapable of enforcing repayment schedules but were basically unwilling to absorb the economic and political costs of forcing ultimate liquidation of the Robinson account.

The pyramiding of loans did not have to lead to long and involved problems as was the case with the Robinson account. The Nance Company Ltd. loans, for example, were allowed to pyramid between 1946 and 1947 until they reached more than $100,000. Percival complained that new advances were being made despite the fact that no satisfactory payments had ever been made, that the loans "were not used for the purposes stipulated" and that assignments of contracts had not been honoured. In fact, when the Committee chose not to enforce payment schedules but still approved new advances, the capital thus made available had been used by Nance to purchase new machinery.[115] No further references to the Nance loans are included in the auditor's reports which have thus far been made public so it is possible that Nance was able successfully to employ his increased capital assets to repay his loans. On the other hand, the Red Deer branch's Phelan loans, like those of Robinson, took years to repay.

In 1944, the auditor warned that special supervision for one Phelan loan for $12,000 -- in the name of the Windsor Hotel -- was required to avoid a loss, but this warning was apparently ignored by the Loans Committee.[116] The Phelan loans had increased to $47,000 without significant payments being made by 1946 when Olive apparently recognized that a repayment problem did exist and informed Percival that he would warn Phelan the loan would be placed on a liquidation basis if the Windsor was not sold to reduce advances.[117] However, it seems likely that, just as when he required additional chattel security from a customer but did not even bother to register it properly, Olive was basically trying to pacify the Deputy Provincial Treasurer by feigning a hard line approach with Phelan. The reality, as Percival angrily noted in July 1947, was that Olive and the Committee had allowed the Phelan loans to pyramid to $223,000. Furthermore, according to Percival, the Phelan accounts, which now included two hotels and a lumberyard, were still slated "for additional advances regardless of the fact that no repayments have been made." He pointed out that repayments in one account seemed to be matched by advances from another, and that hotel renovations were apparently being financed from advances on other accounts or from monies scheduled for repayment from lumbering operations. In Percival's view, the accounts exceeded mortgage values and should henceforth be carried on a strict liquidation basis.[118] Although a liquidation policy was once more put in place by the Branch, it was only followed sporadically. New advances were still made to protect the original loan; repayment schedules were not followed; hotel profits appeared to be diverted into the company instead of going to repayment; and, by June 1949, the loans still totalled over $240,000. At this time, the Treasury Branch finally threatened Phelan with the Attorney General's intervention; a new five year repayment plan was approved, then broken; further advances were made to protect the loan and, at last, substantial reductions began to be made in 1950 after which the account seems to have made steady but slow progress.[119]

Pyramiding also turned a short term troubled loan into a long term repayment problem in the case of the Edmonton branch's Podgurney (Northland Lumber) account. It followed the familiar pattern in which, in 1946, the auditor identified Podgurney's loan as requiring close supervision and the enforcement of a strict repayment schedule to avoid losses on a loan of about $66,000; but the Committee ignored his warnings and continued to advance funds amidst ongoing failures to follow repayment schedules until the loans reached $174,000 by July 1947 when Percival demanded an explanation of Olive. Percival was sure the proceeds from completed lumber contracts had not been applied to the loans as assigned and, in fact, Olive, who had guaranteed the loan would be reduced to $16,000 by mid-July was, by then, only asking for a

$20,000 decrease to $154,000 by 31 December.[120] By 1948, the Podgurney loan was supposedly being carried on a liquidation basis but new advances continued to be approved, although only on a majority vote of the Committee. Committee member K. J. Hawkins, who was destined to replace Percival as Deputy Provincial Treasurer after the latter's death in 1949, seems generally to have sided with Percival in this period. In 1948, the Loans Committee also began to pressure Podgurney to sell some of his assets. As time passed, the Committee admitted it was only carrying Podgurney to protect its loan in the hope of somehow bringing about ultimate liquidation. The loan continued to hover around $100,000 and new advances were approved, on occasion without authorization, only to avoid law suits from other creditors or to secure the release of receivables. The last available Committee minute threatens Podgurney that all financing will cease in 1952 but, as with most Committee resolves, this one faltered and the Branch continued to carry the account. The auditor's 1957 report reveals that the still outstanding loan to Podgurney by then amounted to $71,343.[121]

Unfortunately, the Treasury Branch, in its dealings with the Robinson, Nance, Phelan and Podgurney accounts, did not recognize that what it regarded as a solution to repayment problems -- the pyramidding of loans -- could, in some instances, actually exacerbate those problems and lead to more serious financial difficulties, not just for its customers but for itself. Partisan motivations or economic development strategies might single out for the government which of the Branch's borrowing customers were to receive the incentives provided by pyramiding loans but its lingering social credit beliefs and its continued rejection of conventional banking practices could easily undermine the potential benefits of pyramiding. As typical of any government as the Manning government's political and economic goals might appear to be, pyramiding was essentially social credit in nature: it viewed the solution to its customer's credit problem to be the increasing of that customer's 'purchasing power' by providing additional loans.

One major reason pyramiding sometimes failed was that it was apparently based on an inaccurate diagnosis of the cause of the repayment problem in the first place. Although it disregarded many conventional loan safeguards, the Branch did seek out successful businessmen and most of its loans were backed by adequate real estate and chattel security and by receivables from contract assignments or by sales agreements which exceeded its advances. In the Branch's understanding, the combination of a prized business client and sufficient contracts to keep that client's employees and machinery working should have added up to profits for the client and loans reductions for the Branch. In such circumstances, when a repayment problem did occur, the Branch was too ready to assume the cause was an inadequate capital base to produce the necessary earnings and too ready to ignore the possibility of other causes ranging from managerial incompetence or inexperience to production line and sales inefficiencies. Only later, and to its own cost, did it discover that it sometimes approved pyramiding with only a perfunctory knowledge of its customer's operations or without a thorough knowledge of its customer's other debts.[122]

Furthermore, when a loan was pyramiding, the Branch exercised too little control over how its money was spent. New problems could arise from causes as simple as the misuse of the advance, not even necessarily for expansion of the capital assets of the borrowing customer, but for personal or other business purposes.[123] As well, the Branch's advances for operational expenses were sometimes misdirected into new contracts, which might increase the customer's potential earnings but also increased his immediate need for operational funds and thus could coerce the Branch into further advances.[124]

Only later, when increased credit failed to solve the customer's problems, did the Treasury Branch begin to follow conventional banking procedures to recover its loans. However, even then these procedures were almost always followed sporadically and almost never led to liquidation. Even after a major client repeatedly failed to adhere to repayment schedules, the Branch was apt to view any new payment as new proof of trustworthiness and viability and to begin issuing new advances. Furthermore, when it belatedly recognized that pyramiding was not the solution for a particular account it, nevertheless, continued the same practice with other accounts. The pyramiding of advances without satisfactory repayment was allowed on the Robinson account off and on for years and reached its most dangerous point, according to Huckvale, in 1954.[125] The Nance and Phelan accounts were pyramiding between 1946 and 1947, the Podgurney account in 1947. The Lethbridge branch's O'Sullivan account, which will be reviewed later, was basically pyramiding from 1947 until just before Mannix's involvement on 22 June 1949. The Sparling-Davis account at the main Edmonton branch, which will also be examined later, pyramided from 1949 until 1953 when Mannix again became involved. In fact, the Sparling-Davis account provides by far the worst example of pyramiding in the period under study.

The Treasury Branch was a small system, which had not even recognized the need for a reserve fund for bad loans until 1948, attempting to implement an aggressive loans policy favouring industrial clients in a regional economy based on agriculture and natural resources. To surface appearances, the Branch's steadily expanding loans -- from approximately $4,165,000. in 1946, to $7,095,000. in 1947, $13,625,000. in 1951, and to $21,539,460. in 1954[126] -- were evidence of the success of that policy.

However, given its relatively small deposit base, its poor record at earning profits, and the political sensitivity of its position, even a relatively minor loss of less than $100,000. would have had a serious negative impact on the Branch. By 1954, the provincial auditor considered more than $5 million in loans to be irrecoverable, doubtful, or requiring special attention.[127] Most of that $5 million was the result of the pyramiding of loans. Although the government was not yet ready to abandon pyramiding or accept conventional banking practices, it had come to recognize the potential economic costs involved. Between 1953 and 1954, it began systematically to increase the reserve fund so that it could deal with the possibility of a major loss, such as appeared likely on the Sparling loan.[128]

Even before the government began to increase the reserve fund, the Branch had developed some other protective responses to counter the threat from its troubled loans. Of course, the pyramiding of loans was one such response. Some other Branch responses basically resembled those of any bank in similar situations: advancing funds just sufficient to hold off bankruptcy in the hopes that time would solve the problem, encouraging the client to look for other sources of finances, and even forcing the sale of some assets. Still other responses were unique to the Treasury Branch and necessitated an intensification of the assistance which other government departments and agencies, such as the Department of Public Works, the Industrial Development Bank and the Marketing Board, supplied to favoured Branch customers. As will be shown in Chapters 5 and 6, such was the fate of the Branch's O'Sullivan and Sparling loans. The government had also developed various protective political responses to hide the Branch's problems and to camouflage the Branch's application of social credit theory. The political cover-up of the Branch's affairs will be examined in the next chapter.

Endnotes

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1. Powe, "Interim Program," 66.

2. The best source on the original practices of the Branch is Powe, "Interim Program," 72, 83.

3. See Superintendent A.K. Olive's communications with Manning regarding the planned building program in the summer of 1945. 69.289/1824.

4. Barr, Dynasty, 125.

5. "Radio Talk Over CFRN," 30 Sept. 1938, 69.289/937a.

6. Powe examines the similarities of the Interim Program to the government's social credit legislation which was rejected by the federal government and courts. "Interim Program," 117-21.

7. For a thorough explanation of the voucher system see Powe, "Interim Program," 84-85.

8. "Radio Talk," 30 Sept. 1938, 69.289/937A; "The Interim Programme, An Address of Explanation by Hon. Solon E. Low," n.d., 83.353 Box 11, Provincial Archives of Alberta.

9. For other government and Social Credit League efforts see Alfred J. Hooke, 30 + 5. I Know, I Was There. (Edmonton: Institute of Applied Art, 1971), 148; Powe, "Interim Program," 70-72.

10. "An Outline of the Interim Program Explaining how it works to your advantage," n.d., 83.353/Box 11.

11. "Olive to J.F. Percival, Dep. Provincial Treasurer," 30 Jan. 1945, 69.289/938B.

12. In 1941, only 15 of 385 wholesalers in Alberta were registered in the Program. Powe, "Interim Program," 157.

13. The ASCL first suggested that the MLAs pinpoint possible candidates with banking experience in the spring of 1938, when it was feared that the banks would pull out of Alberta, but Supt. Olive was never very pleased with the banking expertise of many of the managers who were chosen. "G.L. MacLachlan to Aberhart," 6 June 1938, 69.289/937A; "Olive to Percival," 30 Jan. 1945, 69.289/938B.

14. Powe, "Interim Program," 127, 151.

15. "Report of Interim Program Committee," n.d., 69.289/937B;

"Confidential, Interim Programme, by L.D. Byrne," 9 Nov. 1942, 69.289/938A.

16. "Expansion Program," n.d., 69.289/937B. From internal evidence, the document seems to have been drafted in 1940. "Regarding the Interim Program (Session of 1942)," 69.289/938A.

17. "Memorandum, L.D. Byrne to Aberhart," 3 Sept. 1942, 69.289/938A.

18. "Conference, Treasury Branch Managers," 10 Sept. 1943, 69.289/938A.

19. "Conference, Treasury Branch Managers," 11 Sept. 1943, 69.289/938A.

20. "Conference," 10 Sept. 1943, 69.289/938A.

21. Ibid.

22. Powe, "Interim Program," 167-68.

23. Ibid.

24. "Olive to Manning," 16 Aug. 1943, 69.289/938A; "Olive to Low," 27 Aug. 1943, 69.289/938A; "Conference," 10 Sept. 1943, 69.289/938A.

25. For one example of this argument see "Aberhart to H. Allergoth, Secr. Little Bow Const. Assoc.," 30 June 1941, 69.289/937B. For Aberhart's understanding of social credit economics also see Anderson, "Alberta Social Credit party," 89-92. Unfortunately, Anderson pays no attention to the question of where the increased purchasing power was to be injected into the economy.

26. "Conference," 10 Sept. 1943, 69.289/938A.

27. The discussion of the bonus was probably the most controversial aspect of the 1943 conference and several managers spoke out against changing it. Ibid.

28. "Reorganization of the Interim Program," n.d., 69.289/938A.

29. For one example of this attitude, see "Broadcast on Provincial Affairs By Solon E. Low," n.d., 69.289/1824. The broadcast was number eleven of a series which aired in 1944.

30. "Conference," 10 Sept. 1943, 69.289/938A.

31. Ibid.

32. "Manning Repudiates Anti-Semitism," n.d., M695/486; "Manning to Ron Gostick, National Secretary, S.C. Association of Canada," 20 Sept. 1946, 69.289/1461; Elliott, "Anti-Semitism," 78.

33. "National Series, No. 4, 'This Is a Crusade,' by Honourable Ernest C. Manning," n.d., 69.289/1824. The broadcast was part of a series

aired in 1944.

34. Ibid.

35. Powe, "Interim Program," 202-18;"List of Managers' Discretionary Loaning Limits," 1 Apr. 1949, 72.467.

36. Expressions of this concern can be found in numerous files, including 69.289/936, 937, 938, and 1772. Also see Powe, "Interim Program," 83.

37. For one example, see "Manning to F. Gilliland," 5 Oct. 1944, 69.289/938A.

38. See 69.289/936.

39. On some authoritarian aspects of Social Credit see Elliott and Miller, Bible Bill, 243, 267, 273, 320. Robert C. Hill examines the less palitable aspects of Social Credit's confrontation with the media. "Social Credit and the Press: The Early Years," (M.A. thesis, University of Alberta, 1977).

40. Powe, "Interim Program," 92-101, 122.

41. "Conference," 10 Sept. 1943.

42. "Broadcast on Provincial Affairs By Solon E. Low," n.d., 69.289/1824. The broadcast was aired in 1944.

43. For party influence from 1938 to the end of the war, see 69.289/936 & 937A. The town was Vegreville.

44. "Superintendent to Aberhart," 30 Jan. 1939, 69.289/937A.

45. Finkel, "Alberta Social Credit," 81-81.

46. "Olive to Percival," 30 Jan. 1945, 69.289/938B.

47. "N.W. Robertson, Director of Personnel, to Manning," 7 July 1948, 69.289/1771; "Manning to Robertson," 13 July 1948, 69.289/1771.

48. See Olive's communications with Manning in the summer of 1945. 69.289/938B.

49. Scattered minutes of Treasury Branch Loans Committee meetings may be found in the Premier's Papers. For a complete set of minutes from 1 Nov. 1948 to 17 July 1952 see 72.467.

50. "Report," n.d. 69.289/937B.

51. "Proceedings of Public Accounts Committee held on Tuesday, March 23rd, 1948 at Edmonton," 69.289/2281E.

52. "Olive to Manning," 23 Sept. 1944, 69.289/939; "Percival to Olive,"31 Jan. 1945, 69.289/938B.

53. See 71.441/48B and 79.25/Box 38 for evidence that MLA appeals were successful in keeping unprofitable Branches open.

54. "Michael Ponich to Provincial Treasurer," 18 Sept. 1944, 69.289/938A; "Ponich to Manning," 13 Dec. 1944, 69.289/938A. Ponich's attempts to influence the Branch continued. In 1949, he complained about a Two Hills manager and Olive, who viewed the manager as sound, nevertheless promised to move him when a good replacement could be found. In fairness to Ponich, it seems possible that he was concerned not only about the manager's politics but about his attitude to local residents. If that was the case, Ponich was probably foiled because Olive's main consideration in seeking a replacement was that: "The town and district is [sic] comprised practically 100% of foreign element and we must have an officer at the Branch who will take a firm stand in connection with our loaning business." "Fraser to Manning," 2 Sept. 1949, 69.289/1772A; "Olive to Fraser," 29 Aug. 1949, 69.289/1772A.

55. Personal interview with Mr. A.J. Hooke, Edmonton, Alberta, 20 July 1988.

56. "Olive to Manning," 11 Aug. 1953, 69.289/1771. On the basis of his Branch record, Olive defended a Hay Lakes agent who had run as a C.C.F. candidate and asked that the local MLA at least be contacted before any decision was made.

57. "Olive to Manning," 5 Oct. 1953, 69.289/1772B; "Manning to Low," 8 Oct. 1953, 69.289/1772B.

58. "Olive to Manning," 13 Apr. 1946, 69.289/1421; "Manning to Olive," 9 Aug. 1946, 69.289/1421.

59. "Olive to Manning," 11 Sept. 1953, 69.289/1772B.

60. "Minutes," Treasury Branch Loans Committee meetings, 19, Jan. 1949, 9 Nov. 1949, 7 Dec. 1949, 8 Feb. 1950, 22 Nov. 1950, 10 Jan. 1951, 72.467.

61. Hooke interview.

62. "The Alberta Marketing Act," Statutes of the Province of Alberta, 1939, Chapter 3; "The Alberta Marketing Act Ammendment Act, 1941," Statutes of the Province of Alberta, 1941, Chapter 3; Powe, "Interim Program," 193.

63. See 83.353/Box 11.

64. Hooke interview.

65. See Olive's testimony to the 1948 Public Accounts Committee. "Proceedings of Public Accounts Committee held on Tuesday, March 23rd,

1948 at Edmonton," 69.289/2281E.

66. Powe, "Interim Program," 194.

67. "Manning to Olive," 23 July 1945, 69.289/938B.

68. "Superintendent to Deputy Provincial Treasurer," 14 Feb. 1956, 79.25, Public Archives of Alberta. These restrictions did not apply to loans guaranteed by the Provincial Treasurer or otherwise under government direction, loans to municipal and school boards, or loans secured by Dominion of Canada bonds.

69. "Proceedings of Public Accounts Committee held on Tuesday, March 23rd, 1948 at Edmonton," 69.289/2281E.

70. For a traditional banker's attitude to real estate security at about that time see E.L. Stewart Patterson, *Canadian Banking*, (Toronto: The Ryerson Press, 1941), 77.

71. *Ibid.*; "Provincial Auditor to Deputy Provincial Treasurer," 4 Oct. 1944, 69.289/938A.

72. "Percival to Olive," 14 Sept. 1946, 69.289/939.

73. "Proceedings," 23 March 1948, 69.289/2281E.

74. *Ibid.*.

75. "Provincial Auditor to Deputy Provincial Treasurer," 4 Oct. 1944, 69.289/938A; "Minutes," Treasury Branch Loans Committee, 6 Feb. 1952, 72.467. Two problem hotel loans to the Phelan interests are considered later. The Wainwright Hotel loan also exceeded the term of its credit authorization. "Treasury Branch - Edmonton North, Special Liability Return Schedule as at September 30, 1944," 69.289/968A.

76. "Olive to Percival," 12 June 1945, 69.289/938B; Powe, "Interim Program," 193.

77. The argument is based on a review of available Loans Committee minutes found in 72.467.

78. For farm problems during this period see David Monod, "The End of Agrarianism: The Fight for Farm Parity in Alberta and Saskatchewan, 1935-48," *Labour/Le Travail*, 16(Fall 1985), 117-143.

79. "Provincial Auditor to Deputy Provincial Treasurer," 4 Oct. 1944, 69.289/938A; "Provincial Auditor to Deputy Provincial Treasurer," 15 August 1946, 69.2[illegible]/1421; "Provincial Auditor to Deputy Provincial Treasurer," 23 August 1947, 69.289/1436; "Provincial Auditor to Manning," 9 Aug. 1951, 69.289/1772B.

80. Patterson, *Canadian Banking*, vii, 129.

81. Ibid., 139, 182.

82. Ibid., 134.

83. E.P. Neufeld, The Financial System of Canada: Its Growth and Development. (Toronto: MacMillan of Canada, 1972), 104-106.

84. This analysis is based on a study of the Loans Committee Minutes, 72.467. Huckvale complained that the Minutes sometimes provided too little information for him to understand fully the Committee's reasons for approving certain loans so they do have to be used with care.

85. "Confidential," 9 Nov. 1942, 69.289/938A.

86. "Provincial Auditor to Manning," 9 Aug. 1951, 69.289/1772B.

87. Powe, "Interim Program," 202.

88. "Olive to Manning," 23 Sept. 1944,69.289/939; "Proceedings," 23 March 1948, 69.289/2281E.

89. Patterson, Canadian Banking, 267.

90. "Provincial Auditor to Deputy Provincial Treasurer," 20 Dec. 1944, 69.289/968A.

91. "Treasury Branch - Edmonton North, Special Liability Return Schedule as at September 30, 1944," 69.289/968A. The MLA was R.E. Ansley.

92. See 72.467. Several examples of unilateral action on Olive's part are discussed later.

93. See various minutes of the Loans Committee in 69.289/939. Low's loan was for $8,000.

94. "Provincial Auditor to Deputy Provincial Treasurer," 15 Aug. 1946, 69.289/1421; Provincial Auditor to Deputy Provincial Treasurer," 23 Aug. 1947, 69.289/1436.

95. For two examples, see "Public Accounts Committee, Treasury Branches," 25 March 1943, 87.316; "Proceedings," 23 March 1948, 69.289/2281E.

96. "Olive to Percival, cc Manning," 13 Nov. 1946, 69.289/1421.

97. "Olive to Mannning," 19 March 1947, 69.289/1421.

98. "Provincial Auditor to Deputy Provincial Treasurer," 15 Aug. 1946, 69.289/1421.

99. "Olive to Manning," 16 Nov., 1946, 69.289/1421.

100. "Provincial Auditor to Deputy Provincial Treasurer," 23 Aug. 1947, 69.289/1436.

101. "Percival to Olive," 14 Sept. 1946, 69.289/939.

102. "Percival to Olive," 8 Apr. 1947, 69.289/1421.

103. 'Olive to Manning," 23 Feb. 1948, 69.289/1772A.

104. "Provincial Auditor to Deputy Provincial Treasurer," 4 Oct. 1944, 69.289/938A.

105. "Minutes," Loans Committee, 13 Dec. 1944, 69.289/939.

106. "Provincial Auditor to Deputy Provincial Treasurer," 15 Aug. 1946, 69.289/939.

107. "Olive to Percival," 13 Nov. 1946, 69.289/1421.

108. "Provincial Auditor to Deputy Provincial Treasurer," 23 Aug. 1947, 69.289/1436.

109. "Minutes," Loans Committee, 12 Jan., 1949, 2 Feb., 1949, 72.467.

110. "Manning to G.A. Robinson," 18 Jan. 1949, 69.289/1772A.

111. See the "Minutes," Loans Committee, 12 Jan. 1949 through 1950, 72.467.

112. Edmonton Journal, 22 June 1955. Other shareholders included Chris Hooke, A.J.'s brother, and John H. Campbell. Ideal Homes was to be part of the provincial government sanctioned Campbelltown Housing Development but the City of Edmonton opposed the development. A successful appeal was made by the developer to the Provincial Planning Advisory Board. Hooke had previously owned most of the land intended for the development but had sold it to Campbell. "Minutes," Loans Committee, 4 April 1951, 19 Sept. 1951, 72.467.

113. See "Minutes," Loans Committee, 72.467.

114. "Huckvale to Manning," 14 Jan. 1954, 69.289/1773.

115. "Percival to Olive," 19 July 1947, 69.289/1421.

116. "Provincial Auditor to Deputy Provincial Treasurer," 4 Oct. 1944, 69.289/938A.

117. "Provincial Auditor to Deputy Provincial Treasurer," 15 Aug. 1946, 69.289/1421; "Olive to Percival," 13 Mov., 1946, 69.289/1421.

118. "Percival to Olive," 19 July 1947, 69.289/1421.

119. "Minutes," Loans Committee, March 1949 to February 1952, 72.467.

120. "Provincial Auditor to Deputy Provincial Treasurer," 15 Aug. 1946, 69.289/1421; "Percival to Olive," 21 July 1947, 69.289/1421.

121. "Minutes," Loans Committee, 72.467; "Provincial Auditor to K.J. Hawkins," 25 July 1957, 79.25.

122. For one example, see the Treasury Branch Loans Committee minutes for 31 May 1950 regarding the Podgurney account. 72.467.

123. See "Percival to Olive," 19 July 1947, regarding the Phelan account. 69.289/1421.

124. As will be shown later, this was the case with the Sparling-Davis account.

125. "Huckvale to Manning," 14 Jan. 1954, 69.289/1773.

126. "Provincial Auditor to Deputy Provincial Treasurer," 15 Aug. 1946, 69.289/1421; "Provincial Auditor to Deputy Provincial Treasurer," 23 Aug. 1947, 69.289/1436; "Provincial Auditor to Manning," 9 Aug. 1951, 69.289/1772B; "Provincial Auditor to Manning," 15 July 1954, 69.289/1772B.

127. "Provincial Auditor to Manning," 15 July 1954, 69.289/1772B.

128. The reserve fund increased from $95,761 in 1952, to $179,626 in 1953, $302,788 in 1954, and $406,874 in 1955. Basically the government applied any annual net profits from the Branch's operations into the reserve fund. By 1959, the fund stood at $1,262,606 but was probably still not large enough to absorb the losses which would have resulted from the failure of the Sparling loan. For statistics on the Branch, see Table 18.

CHAPTER 3

Learning the Political Costs of Following Devious Routes

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By the time the Treasury Branch began to experience serious problems with its loans in the late 1940s, the Manning government had already developed a well-articulated strategy to defend the Branch against any opposition questions. When the Branch had been founded in 1938, the government had defended it as a social credit institution but once the government made peace with the business world prior to the 1944 election, the Branch's social credit nature was downplayed and its conservative, orthodox handling of its clients' money was increasingly emphasized. As was previously discussed, the government believed that cultivating the image of an orthodox bank was necessary to enhance public confidence in and patronage of the Branch, to quieten opposition questioning, to satisfy its business clientele of the safety of the Branch and, in a more general sense, to maintain investor confidence in the government and avoid reprisals from the powers of finance. Behind the deception of the Branch's businesslike public persona was a quasi-social credit institution under government direction and hostile to orthodox finance.[1]

The government's defensive strategy was based on a deliberate deception of the public. A false image of the Branch was created which, as the years passed, bore less and less resemblance to the reality of the Branch's operations. The deception was regrettable but necessary for the cause of social credit. It was necessary, in the first place, as part of the strategy of following devious routes since the government's continuing behind-the-scenes efforts to build a social credit economy based on the institution of the Treasury Branch could only be successful if they were hidden from the financial conspiracy. Deception was also necessary if the Branch was to apply social credit theory in its loans policies while supposedly adhering to orthodox banking principles. Lastly, deception became increasingly necessary to hide the Branch's problems with its loans as those problems became more acute through the late 1940s.

The government's deception of the public required little more than a few polite subterfuges, half-truths and white lies, except when cabinet ministers or Branch officials were questioned directly by members of the opposition. Although Alberta's tiny opposition periodically queried the government's management of the Branch, it was unable to mount a sustained attack. A meeting of the Public Accounts Committee provided the best forum for the opposition to grill the government about its handling of the Branch but opposition MLAs only managed to force meetings of that Committee twice before 1955, in 1943 and 1948. On both occasions, the government made sure they found out very little. Although the opposition MLAs were frustrated in their attempts to learn about the Branch, their questions did force the government to articulate in more detail their image of the Branch as a conservative, orthodox lending institution.

The government's cover-up of the true nature of the Branch was cumulative. Each time Manning or Olive or various Socred cabinet ministers had to answer opposition questions about the Branch they embellished the Branch's public image as an orthodox lending institution. As the Branch's loans problems became more acute, the public image of the Branch became more difficult to sustain since it deviated more from reality. Nevertheless, the discrepancy between image and reality was manageable so long as the Branch refused to liquidate its troubled loans, which would have brought its problems to public attention, and so long as the government was able to block any in depth inquiry which might discover the discrepancy.

All of that changed in 1955. The opposition's attack in the spring session of the legislature and then in the election focussed public attention on the weakest links in the government's armour: the Treasury Branch and the DPW. Although this study concentrates on the Treasury Branch, it will be shown in Chapter 4 that the Manning government had just as much reason to want to block inquiry into the business dealings of the DPW. Prowse's charge that O'Sullivan Construction and Mannix Ltd. received preferential treatment when the government awarded highways contracts because of their Branch debts neatly combined the twin issues of corruption in the DPW and the Branch.

When Social Credit called the election it hoped to avoid answering several charges the opposition was making in the legislature by appealing directly to the people for a vote of confidence based on a record of providing good government. To steamroll its way to victory, the government was depending on the superiority of Social Credit's political organization, the element of surprise in catching the opposition parties unprepared and, most importantly, Manning's image of incorruptibility to offset the opposition's charges of corruption. Social Credit's election strategy did not work. Its own organization, at least at the constituency level, was no longer as powerful as it once had been and could not deliver the vote as it once would have. The government was never able to establish that the election had even been necessary or escape the opposition's accusations that it was really trying to cover up its own wrongdoing. Social Credit's self-advertised record for good government never replaced corruption as the number one election issue and, unbelievably, Manning's halo failed to stop opposition inroads.

Most of the credit for the opposition's strong showing belongs to J. Harper Prowse. Thanks to Prowse, Social Credit's election campaign deteriorated into a question and answer period, with Prowse dictating the political agenda by demanding explanations for the alleged wrongdoing of the government and the government responding in a vain attempt to demonstrate its innocence, while public uncertainty just kept on growing. Manning finally realized that just denying Prowse's charges was not enough; he had to respond in such a way that the public's doubts would be lessened. It was at this time that he finally gave in to the opposition's repeated demands for a Royal Commission to investigate their charges. By doing so, he exposed both the Treasury Branch's problems and the DPW's rigging of contracts to the risk of discovery.

The 1955 election convinced the Social Credit government that the political costs of following devious routes and of applying social credit theory in the Treasury Branch were prohibitive. The Branch's O'Sullivan and Sparling loans had given Prowse a key election issue. Social Credit's adherence to social credit economics could have cost it the government and Manning knew that even though Social Credit had won the election, it still had to face the test of a Royal Commission investigation of the opposition's charges -- the Manning government was not yet safe.

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The success of the Manning government's efforts to reach social credit by devious routes required the creation of an image of the Branch as an orthodox financial institution. Behind this deception, the government believed that it could pursue its dream of building a social credit economy undetected by the financial conspiracy. The false image created by the government portrayed the Branch as operating at arm's length from any government interference and, by 1944, as following a conservative, orthodox loans policy. As the Branch's loans problems worsened, the government became more and more dependent on blocking any inquiry into the Branch's affairs and it described the

Branch's loaning policies in increasingly orthodox terms to reinforce its deception. The influence of Branch officials on Bruce Powe's thesis, which was examined in Chapter 1, provides an example of a mature version of the Branch's efforts to assume a guise of orthodoxy.

Even when the government defended the Treasury Branch as a true social credit institution, in the days before Social Credit's alliance with business against socialism, it carefully portrayed the Branch as independent of cabinet interference. In his testimony before the 1943 Public Accounts Committee, Superintendent Olive, in response to then Provincial Treasurer Solon Low's leading questions, agreed that he had never been subject to political pressure from the government.[2] Although it was not always easy, the government always insisted that the Treasury Branch operated at arm's length from any government direction. The government faced two major difficulties in maintaining the charade of Branch independence. First, any Branch client was technically in a contractual relationship with the Treasurer and the Treasurer was obviously privy to Branch business. Second, since in a worst case scenario the public purse would ultimately be accountable for Branch losses, the government wanted to reassure the public both that the Branch could not loan large sums of money without some guidance and, that if a large loan did become troubled, the Branch had access to outside financial expertise to help it recover its loans.

Manning and Superintendent Olive were the most important government figures in promoting the erroneous notion that the Branch operated independently of government influence. During the 1948 Public

Accounts Committee hearings for instance, when Prowse questioned Olive about irregularities in the registration of securities on the O'Sullivan loan, Manning attempted to defend the Branch by claiming it probably had more information on file, but he denied any personal knowledge of the O'Sullivan loan.[3] Yet, as was shown in Chapter 2, as Treasurer, Manning received the minutes of the Loans Committee meetings and quarterly reports on any loans requiring special attention.[4] Furthermore, as will be demonstrated in the next chapter, the Branch's support of O'Sullivan was part of a coordinated government policy which also involved the DPW. That policy clearly emanated from cabinet. Manning not only knew about the Branch's O'Sullivan loan, he had, through 1947, received copies of Percival's warnings to Olive that the O'Sullivan loan was inadequately secured and dangerously extended.[5]

To reassure the public that the Branch's largest loans were subject to some form of government approval, the government admitted that any loans over $100,000 did require the consent of the deputy treasurer,[6] and Olive even admitted to the Public Accounts Committee that if either a loan to an industry where the government had a specific policy or a large loan became troubled, the Branch would refer it to cabinet. However, Manning quickly distanced the cabinet from any direct involvement with such a loan by pointing out that government supervision of a troubled account would be exercised through Marketing Services Limited,[7] independent of cabinet direction. Despite Social Credit's claims, no evidence has been found which suggests either that the deputy treasurer's consent for the O'Sullivan and Sparling loans was ever sought or that those accounts -- the two most troubled loans the Branch ever had -- were at any time placed under Marketing Services supervision. Major decisions on these loans were made in cabinet or by Manning in consultation with Olive and Treasury officials. The arm's length relationship between the Manning government and the Treasury Branch was a myth.

The government repeatedly portrayed the Branch as a conservative and orthodox lender of money. In fact, Manning and Olive were concerned to show that the Branch was even more careful in making loans than the banks. During the 1948 Public Accounts Committee hearings for instance, Olive insisted that the recently established reserve for bad loans, amounting to some $25,000, was ample, which appeared to make sense since, as Manning noted, the Branch had "not thus far been required to write off any bad accounts." When the opposition asked why the Branch, unlike banks, required physical security as well as a note when making a loan, Manning had a ready answer: "We are a little more careful possibly than the banks."[8] As should be evident from the description of the Branch's loans problems in Chapter 2, Olive's and Manning's answers had little to do with the reality of Branch loaning practices. By the time of the Committee hearings, Manning and Olive had both been warned many times about such problems as the inadequacy of the reserve for bad loans and loans which were inadequately secured, and they had been urged to cut back on the Branch's liberal loaning practices[9] but they rejected the advice.[10]

When the opposition questioned the government about problems it believed existed in the Branch's loaning practices, the government's strategy was simply to deny any allegations which conflicted with the deception that the Branch was a conservative, orthodox lender of money. Again during the 1948 hearings, Olive denied that the Branch was experiencing difficulties with repayment on some of its long term loans and insisted that they were fluctuating in value, presumably according to the client's needs and payments. According to Olive, the Branch had never found it necessary to grant a further advance to protect an original loan.[11] Although the Branch's problems with long term loans worsened later, in 1948 when Olive testified before the Committee, the Branch was already having difficulty securing the repayment of several long term loans -- including the Robinson, Phelan, Podgurney and O'Sullivan loans -- and was either pyramiding the loans to solve the problem or providing additional advances to protect the original loans. As with the supposed arm's length relationship between the government and the Branch, the Branch's orthodox loans policy was a myth.

The Branch's troubles presented the government with two problems which became more serious as time passed. First, it was trusting to a large degree in the benefits of pyramiding to resolve the Branch's loans problems. Yet, as has been shown, the Branch's hostility to conventional banking practices tended to undermine the potential benefits of pyramiding so that its loans problems just kept getting worse. Second, once the government created the fiction of the Branch as an orthodox and successful lender of money, political realities seemed to dictate that it go on sustaining that fiction no matter how bad the Branch's loans problems actually became. As was suggested before, the government's deception could only be maintained so long as the Branch did not make its problems public by forcing liquidation or foreclosing on its troubled loans and so long as the government blocked any public inquiry into the Branch's affairs. The Branch's refusal to liquidate loans such as those to Robinson and Podgurney was reviewed in Chapter 2 and will be examined in the more extreme cases of the O'Sullivan and Sparling loans later. The government had followed the strategy of protecting the Branch by blocking inquiry since at least 1943 when Olive refused to provide the Public Accounts Committee with the names of the Branch's industrial clients and of those clients with overdue loans.[12]

There was some obvious validity to Olive's argument that the privacy of borrowing customers must be respected, but the government used that argument as a wholesale proscription to protect the Branch from the discovery of serious problems which indirectly had impact on the public purse and therefore were public business. When the Public Accounts Committee hearings began in 1948, Manning established the government's position right from the start: "I want to make it quite clear that it is not the intention of the government to agree to any investigation into or discussion of private accounts and private loans from the Treasury Branches." In Manning's view, no one would use the Branch if their private business could be made public, however he agreed to allow "full information on policies and methods of making loans and regulations governing loans." Once more carefully drawing attention to the independence of the Branch, Manning pointed out that the government's sole responsibility was to see that such policies were carried out in practice.[13] Prowse countered that it was only possible to know if the Branch's policies were actually carried out if a few major loans, which were public knowledge because the securities were registered, were examined. However, Manning's guidelines were accepted by Dr. J.L. Robinson, the Committee chair. Throughout the hearings, Robinson eagerly sought direction on several of his rulings from Manning and was easily bullied by such Socred backbenchers as Lee and Landeryou into keeping the Committee's inquiry strictly within Manning guidelines. The result was that any opposition inquiry was blocked concerning loans to government MLAs or cabinet ministers or any businesses in which they were involved. Olive even denied that the Branch would be aware if a minister or MLA was involved in a company borrowing from the Branch.[14] Even when the opposition knew about a Branch account, such as the O'Sullivan loans, it was reprimanded by Robinson for mentioning the name of specific Branch customers and prevented from discovering how the Branch applied its policies.

For years, the political costs to the Social Credit government of maintaining its deception about the Treasury Branch were hidden. The same half-truths and subterfuges were repeated as required, but all the while the Branch's loans problems were becoming more acute and the difference between the advertised image of the Branch and reality was growing. For instance, Olive claimed the reserve fund for bad loans was ample during the Public Accounts Committee hearings in March 1948 when it stood at $25,000. Yet in the provincial auditor's last report prior to the 1948 Committee hearings, Huckvale had considered more than $500,000 in loans required careful attention and strict supervision to minimize losses.[15] Seven years later, C.E. Gerhart, who served briefly as Treasurer from 23 December 1954 until his defeat in the 1955 election, was still repeating Olive's claim. The fund then stood at $302,788[16] and, according to Gerhart, there was "no reason to enlarge the fund and no reason to believe outstanding debts will not be paid."[17] Yet in the provincial auditor's most recent report, Huckvale had predicted that actual losses on the Branch's $5.4 million in troubled loans might add up to more than $3 million.[18] Even though Gerhart defended the fund in much the same terms as Olive, as was suggested in Chapter 2, the government had, by 1954, recognized the potential economic costs of its pyramiding loans and begun systematically to increase the reserve fund.

Gerhart was gambling that the government could continue to hide the Branch's loans problems until they were somehow resolved but, by the time he was defending the reserve fund, the opposition had already launched the attacks on suspected government corruption which were to induce Manning to call the 1955 election. By then, the accumulation of years of deceptions about the Treasury Branch were quite sufficient to cost Social Credit the government if they became public. Any chance the government had had to admit the Branch was having problems had long since disappeared. The kind of problems identified by Huckvale were politically indefensible. The Manning government now had to deny the opposition's allegations at any cost if it wished to remain in power.

[iii]

The 1955 election was important to the Manning government's management of the Treasury Branch because it created the political conditions -- and probably the political will -- for change. Although the government had already begun by 1954 to recognize the economic costs of the Branch's pyramiding loans, it appears to have been the 1955 election which forced the government to recognize that neither the economic nor the political costs of its Branch policies were acceptable. Further research is required but it seems that the election was decisive in halting the government's application of social credit theory in the Branch and in causing the actual implementation of the conventional banking practices the Branch had long pretended were standard. These changes were forced on the government by two immediate outcomes of the election. First, Social Credit's majority collapsed from 46 to 13 seats. The election demonstrated the vulnerability of the government if it did not change its ways and, in particular, was a slap in the face to Manning whose personal guarantee that the opposition's charges were without foundation was apparently not believed by much of the voting public.[19] Manning's halo was knocked askew. Second, towards the close of the election campaign as Social Credit saw its grasp of one seat after another slipping away, Manning made several gestures which were intended to lessen the public's doubts. The most significant of these was his promise of a Royal Commission. It will be shown in the next chapter that, to guarantee the Royal Commission would absolve it of blame, the Manning government had to engage in a level of deceit which was probably distasteful to Manning and which was certainly politically insupportable over the longer term. The government had to abandon its attempts to reach social credit economics by devious routes and accept orthodox economics or it would fall.

The opposition's attack on Social Credit began on 22 February 1955 when the Conservatives called for a judicial inquiry into the purchase of the Spy Hill Gaol site on the grounds that the government had allowed profit-taking by a middleman who was a friend of the government. The next day a similar charge was made about the Chestermere Gaol site. Conservative MLA Paul Brecken alleged that the middleman who profitted, stabled his horses with those of the Attorney General, Lucien Maynard. According to Brecken, the middleman had received the information "straight from the horse's mouth."[20] It turned out that Brecken was wrong about the horses and Maynard threatened to sue, not Brecken for his sense of humor, but the Edmonton Journal for its coverage of the story.

Though the government seemed to have won round one not much else went right for it that year. The jail site controversies kept resurfacing through the spring and it was not long before there were half a dozen other opposition charges the government was trying to answer. To contain the political damage of these charges the government tried first to refute them in the legislature, and when this did not work it convened the Public Accounts Committee to show it was not hiding anything, but that did not work either. It was only the second time since World War II that the province's tiny opposition had been able to force the government to call Public Accounts Committee hearings and the government was probably hoping the inquiry would provide sufficient evidence to satisfy the opposition and silence their criticisms. The government could not have been more mistaken. The head of the Committee, Social Credit M.L.A. John C. Landeryou, had to resign as chair before the hearings even began when it turned out that he had been party to one of the five government transactions being investigated. Landeryou and Roy Lee, the Social Credit M.L.A. for Taber, had been involved in the purhcase of Provincial Building No. 2 from the government. The problem was that they had then rented the building back to the government. They were in violation of the Legislative Assembly Act which prohibited M.L.A.s from entering into contracts with the government and had to resign their seats. Manning appointed Michael Ponich, a cabinet hopeful who was certain to try to keep the opposition in line, as the new Committee chair but the strategy of allowing Committee hearings still backfired on the government. Rather than creating the impression of a full inquiry into the opposition's charges, the hearings provided the opposition with both a platform for airing their accusations and plenty of media attention.[21]

While the government was contemplating the sudden necessity of two by-elections and the damage the opposition's accusations were doing to its credibility, a whole new series of controversies arose. In effect, the opposition's charges had become the focus of Alberta's political scene -- the government was no longer dictating the political agenda. For instance, in one memorable day, Paul Brecken alleged there were irregularities in the government's selection of a site for the Conservation Board building and also asked what the connection was between the government's paving of the Belmont Drive-In road and the fact that the Drive-In was owned by Maynard. Conservative M.L.A. J. Percy Page began to question the government's financial interest in the Brazeau Collieries and criticized the government for refusing to open DPW tenders in public. Fellow Conservative W.J.C. Kirby argued that the government was forcing contractors to use Ytong cellular blocks when it called for tenders for the construction of provincial buildings and asked if any present or former cabinet ministers had shares in that company.[22] It was common knowledge that Nathan Eldon Tanner, who had been minister of both Lands and Forests and Mines and Minerals until September 1952 when he left public life to pursue a career in business, was also a director and part-owner of Ytong. Finally, the Leader of the Opposition, J. Harper Prowse had belatedly noticed that the government had pushed an ammendment to the Legislative Assembly Act through the legislature which only then made it acceptable for MLAs to have Treasury Branch accounts. Now, he questioned the right of any Social Credit MLA with a Treasury Branch account to have been sitting in the legislature.

In the ensuing debate, Manning at first ridiculed Prowse for making such an absurd and irresponsible charge, but later he switched tactics and argued that by raising this legal technicality Prowse had challenged the validity of all the legislation passed since the province's MLAs began opening Treasury Branch accounts after the Branch was founded in 1938. When he announced the election a few days later, Manning argued that Prowse had created an intolerable situation and that the government had no choice but to ask the people for their verdict on Prowse's actions.[23] By then, the Social Credit government had had enough. Since January, the opposition had shown no signs of relenting in its attack and it had marshalled enough circumstantial evidence to make the government look bad. Social Credit was not used to such sustained criticism; it did not like having its integrity questioned, or having each opposition charge displayed on the front pages of the province's major newspapers. A surprise election seemed to offer the best chance for the government to regain control over the political process.

Manning's choice of an election issue offered certain advantages but, overall, it proved unfortunate for the government. It allowed the government to blame Social Credit's main opponents, the Liberals, for the necessity of an election and, in particular, it allowed Manning to castigate Prowse for having deliberately tried to overturn seventeen years of progressive legislation to satisfy his selfish greed for office. But the issue inevitably drew the public's and the opposition's attention to the government's handling of the Treasury Branch's affairs, which then became one of the central issues of the campaign. More importantly, Prowse had been curiously quiet through the spring session of the legislature and had allowed the Tories to take the lead in lambasting the government for alleged corruption. Manning's election challenge drew Prowse back into political battle and Social Credit soon discovered that its assumption that its own superior party organization would pull the vote, while Manning decimated Prowse in a contest for public credibility, was wrong.

The Social Credit organization was not the model of symmetric perfection on which party President Orvis Kennedy prided himself. It was still a fairly potent political weapon, but the strength now was at the center rather than at the constitutency level. Active constituency workers in the lower echelons of Kennedy's organizational chart, based on an heirarchy leading from poll to group to zone to constituency to district to provincial organizations, were often missing and League membership in 1954 only totalled 3520.[24] But constituency organizations in varying stages of activity at least existed and workers and members still responded to an election call -- no other Alberta political party could approach Social Credit's organizational depth. The party's coffers were full, partly due to the numerous corporate donations Social Credit received,[25] and Kennedy was perhaps the most accomplished political organizer in the province. By the end of the election period, only 13 of the 61 Social Credit constituency organizations had memberships of less than 100 and, by the end of the year, League memberships totalled 16,255.[26]

In the early 1950s, the party leadership had recognized the dangers created by the gradual erosion of the party's organizational strength and taken steps to reinvigorate the party by trying both to attract new members and to reinvolve local constituency officials in the provincial decision-making process. Neither plan worked. The party's attempts to establish a young people's organization and to increase its educational work with the young and with recent immigrants brought little success. The regular Presidents' Conferences, which began in March 1951, constituted Social Credit's boldest attempt to breath new life back into the organization. The Conferences were ostensibly designed to help make "Constituency Executives ... their own master" and to prevent the drift to an MLA controlled organization.[27] In practice -- as when the government talked about decentralizing government influence through the Treasury Branch system -- Social Credit did not have in mind any significant decentralization of power to the local level. In any case, decision-making within the party was already basically the prerogative of the caucus and the cabinet. The Conferences were a useful tool for party leaders to test ideas and even to spark grass roots pressure on MLAs or MPs who were not active enough in organizational work, but the constituency presidents never set the agendas for the meetings or served as much more than a communications link between the government and the membership.[28] The fact was that the Social Credit organization had basically become a vehicle for rubber-stamping rather than initiating policy, for congratulating rather than criticizing the government, and for fighting elections. The 1948 purge had helped to sanitize the movement; dissident voices now were quiet or spoke off the record. What activism existed in the movement, together with a good deal of money, was absorbed by the Alberta party's efforts on behalf of the national party's On To Ottawa Drive.[29] Indeed, some of the neglect of Social Credit's constituency organizations probably was due to its efforts in the national field. Kennedy's time, in particular, was divided between the provincial and national party.

Despite the failure of these early attempts to increase organizational activity, party leaders realized that such activity was essential and they continued to work to rekindle membership enthusiasm. In 1954, the party sponsored two important new initiatives, both of which more directly recognized the necessity for a top down approach if the party was to recover some of its former energy and both of which later benefitted Social Credit when the 1955 election was called. First, concerns about declining constituency activity and the loss of a by-election, in what was considered a safe seat,[30] led to the hiring of two new full time organizers at the close of the year while a third worked voluntarily.[31] The organizers' efforts were later recognized by Kennedy as vital to the party's ability to muster constituency activity.[32] Second, the party decided to finance a series of radio broadcasts called 'These Are The Facts'. The broadcasts, which began in January 1955, were mainly given by Manning. When the opposition's attack on Social Credit began to gather momentum in the spring of 1955, the broadcasts provided Manning with a valuable public forum to respond to the opposition's charges and to reach out to the public. They also allowed the government the opportunity to state its viewpoint on various issues which it felt the provincial media was distorting.[33]

In 1955, the true value of the Social Credit organization was its ability to shift rapidly into election gear. The fairly strong central organization was able to revive many of the weaker constituency organizations to stage local campaigns which complimented and reinforced the central campaign. To reinvolve the membership, Manning issued a stirring call to arms to come to the aid of the embattled "fountainhead" of the Social Credit movement. According to Manning, the opposition parties had realized that "the final force they'll have to face is the Social Credit movement."[34] He claimed to have in his possession "enlightening information which leaves no shadow of doubt" that the opposition parties had "deliberately and carefully planned" their vicious attacks with the one objective of smearing the government "to gain their political ends under the guise of being the champions of efficiency, honesty and integrity in public affairs."[35] Much the same message had previously been given to the party's MLAs and to the constituency executives to explain the opposition's attack during the spring session of the legislature. As one MLA explained it to Solon Low, the Alberta party had information about the plans of the Conservative-Liberal-CCF forces to "investigate every cabinet minister back to the cradle and if necessary all the other members as well" to find anything which could be used to stop Social Credit.[36] The Canadian Social Crediter argued that the purpose of the opposition's attack was "to discredit Social Credit in Alberta before Social Credit in Canada becomes a reality."[37] As will become clear when the Liberal strategy is discussed, to some extent the Canadian Social Crediter was right.

Manning's call to arms demonstrates the extent to which Social Credit still depended on the rallying cry of the battle against the conspiracy to lash the true believers in the party into action at election time. Although further research is necessary, it appears that Social Credit had not yet come to terms with the decline of its grass roots organization. The party still liked to think of itself as a 'populist' party and most of its internal reforms in the early 1950s had been designed to recapture a level of membership activity which it had known in the past. So long as the party needed substantial membership participation to win elections, the invocation of the anti-Social Credit conspiracy was essential because a substantial proportion of the members who would work for the party were the original converts to the Douglas and Aberhart brands of Social Credit. The acceptable version of the conspiracy had changed since the 1948 expulsions of the Douglasites and anti-Semites, and Manning was now more apt to refer to it obliquely in asides about the Liberals' "political brain trust," the opposition's "political clique,"[38] and the brainwashing efforts of the communist-socialist-Liberal alliance, but the true believers knew he still meant the conspiracy.[39] In 1955, the party proved capacious enough to welcome back as a candidate in Edmonton Anthony Hlynka, who had long been regarded by the Liberals and CCF as one of the most virulent of Social Credit's anti-Semites.

To a considerable extent, Manning's call to arms worked. The faith and the heartland of social credit were at stake and the workers rallied round. To make Social Credit's task easier, Manning encouraged all incumbents to seek re-election.[40] Although in previous years Manning had usually avoided any public interference in the democratic decisions of the constituencies, he varied from this practice in 1955. For instance, when Rose Wilkinson was defeated at Calgary's nomination meeting, she was allowed to run as a Social Credit candidate, rather than being forced to seek re-election as an Independent Social Credit candidate and Manning let the voters know she had his blessing.[41]

Despite the short notice of the election call, Social Credit soon mounted a fairly sophisticated campaign. The central campaign, which relied in part on the expertise of the Stewart-Bowman MacPherson ad agency, emphasized radio talks which were advertised in the province's newspapers, but it also made some use of television. The central campaign leaflets were copies of Manning's radio addresses[42] and reprints of Calgary Albertan editorials. To assist the party's candidates in answering opposition charges, responses were prepared under cabinet direction, cleared by Manning and then mailed out.[43] All in all, Social Credit's campaign revealed political skills and resources which could not be matched by any of the opposition parties.

[iv]

Given Social Credit's relative organizational strength and the weakness of the opposition parties, the snap election should have led to an overwhelming victory, but Social Credit was never able to establish in the public mind that the election call had been necessary in the first place. If it had not been for the weak organizations of the Conservatives and the CCF, which prevented them from making any gains in the election, and a dispute between the provincial and federal wings of the Liberal party, which had stalled its organizational drive by the start of 1954, the Manning government might even have been defeated. The extent to which Social Credit's election losses constituted a stunning upset can best be appreciated when the weaknesses of the opposition parties are examined.

The Conservative party in 1955 was an urban-based organization of businessmen with very limited political clout. When the Conservatives had finally re-entered provincial politics following the demise of the Independents after the 1948 election, they had no platform, no leader and no real constituency. They had only managed to run 12 candidates in the 1952 election, all of them in Edmonton and Calgary.[44] Although they entered the 1955 election with 3 MLAs, the party's grass roots organization still did not extend much beyond the walls of the Calgary Board of Trade rooms where the provincial executive usually met. The provincial party had only opened an office, hired its first field organizer, and begun its first province-wide fund raising campaign in 1954.[45] The provincial Conservatives were dominated by the federal party. Federal constituency representatives appointed their provincial counterparts,[46] and the party's elected MPs were the key decision makers, set the tone of the party, and plotted electoral strategy and policy decisions. Provincial organization was based on federal constitutency boundaries but the only active constituency organizations which existed until the Diefenbaker phenomenon of 1957-58 were in Edmonton, Calgary, Lethbridge, Red Deer and Wetaskiwin.[47] What rural organization existed was the responsibility of the key city activists.

The Conservative party and Social Credit shared many of the same beliefs. The Conservatives stood for loyalty to the Crown and Commonwealth, individual initiative, opposition to bureaucratic growth, the supremacy of Parliament, nationalism and trade within an imperial framework, and opposition to creeping republicanism.[48] Although the party probably disagreed with Social Credit on American influence as much as anything, it chose to attack Social Credit more on the grounds that it was anti-Semitic, undermining the fundamentals of British parliamentary democracy, and misusing religion for political purposes.[49] In the view of party's leaders, people who voted for Social Credit were Conservative voters in reality, but they had been deluded by the "deceptive fantasies" spun by Manning and his cohorts.[50]

Although the Tory MLAs had led the attack on Social Credit during the 1955 spring session of the legislature, the party beat a hasty retreat once Manning began firing back. In a joint statement, the Conservative MLAs tried to carve out a middle ground which would separate the Conservative party from the Liberals without condoning Manning's tactics. According to them, the government was trying to stop further opposition questioning but Prowse's query concerning MLAs with Branch accounts had been ill-considered and, by implication, irresponsible.[51] A few days later, Page suggested Prowse had "pulled the biggest boner of his career" by challenging the validity of seventeen years of legislation.[52] Although Conservative candidates continued to push some of the issues they had raised in the legislature, in the early stages of the election they were more worried about avoiding Manning's wrath as he condemned the opposition for dragging public debate down into the slime of gutter politics.

The Conservatives managed to muster 26 candidates for the election but, outside Edmonton, Calgary and Red Deer, the party was basically not a factor. A profile of the candidates compiled from party records shows most candidates were Anglican or United Church members, high school or university educated and, overwhelmingly, war veterans. Almost one-half of the 14 urban candidates were lawyers and most had previous political and party experience. The 12 rural candidates were little more than tokens and generally finished dead last in their constituencies; they tended to be owners of small businesses, educators or life insurance representatives and to have no previous political or party experience. There was only 1 woman and 1 farmer among the candidates.[53] Although several independent and coalition candidates ran, supposedly representing Conservative and Liberal interests, the Tories were convinced they were closet Liberals. It knew they were not Conservatives.[54] In sum, by 1955, the Alberta Conservative party was still basically an elitist organization representing class interests and more than a little distrustful of a democracy which could be deluded into voting for what it considered to be a bigotted and hypocritical Social Credit government.

Unlike the Conservative party, which had yet to establish a viable organization in most of the province, the CCF had built a fairly strong organization in the 1940s but, by 1955, that organization had practically disintegrated. The boundaries of the CCF's electoral strength since the highwater mark of 1944 could be marked by ever-shrinking concentric circles leading back to the mixed farming areas of central and eastern Alberta. Party membership, as elsewhere in Canada, had been declining and those members who remained were less and less interested.[55] The Alberta CCF had become increasingly inward turned, probably due to the impact of McCarthyism, and increasingly defeatist before the Social Credit juggernaut.[56] With the 1955 election loss of party leader Elmer Roper, the CCF was destined to a marginal role in the few remaining years of its life. Although a surprising amount has been written about the Alberta CCF,[57] as Robin Hunter recently suggested,[58] it is time some attention was paid to the question of whether the CCF could have adopted tactics or strategies which might have stopped its drift to insignificance in Alberta politics.

When the CCF's philosophy and electoral strategy are examined, marginalization appears to have been a self-fulfilling prophecy. The party believed an electoral breakthrough was unlikely in prosperous times such as the 1950s. The most notable exception to the general prosperity in Alberta was the province's mixed farming population[59] and most of the party's organizational efforts in the 1950s were exerted in the direction of that declining population.[60] While awaiting a change in political climate of the province, party leaders believed it was their duty to keep a "nucleus of informed people" active.[61] Meanwhile, the leadership jealously guarded the CCF's founding philosophy against revisionist ideas,[62] loss of radicalism,[63] and any decline in the democratic functioning of the party -- particularly the national party.[64] Elections were largely viewed as inconveniences to the educational and organizational work which was required to build a strong foundation for a lasting party structure.[65]

In reality, the Alberta CCF leaders were the self-appointed guardians of a holy grail whose message no longer seemed relevant to a demos with which they were rapidly losing touch. The organization, which, true to the CCF's respect for democracy within the party, was only meant to function to the extent to which the grass roots were active, was well on the way to becoming calcified. Meanwhile, the party was overlooking two possible areas for expansion, the cities and the northeast of the province, including several ridings with sizeable Ukrainian populations such as Redwater, Vegreville, Bonnyville and St. Paul. The lack of a sustained organizational effort by the provincial party in the cities, despite the emergence of a fairly active Edmonton constituency organization in the mid to late 1950s, was partly due to a belief that Alberta's industrial development was insufficient to create a politically aware working class[66] but more directly because party leaders, such as provincial secretary Nellie Peterson and party president Bill Irvine, were uncomfortable with unions, believed their membership was reactionary and feared their conservative influence on the movement.[67] The reasons for the party's disinterest in the northeast of the province are more complex.

In 1944, the party had finished a respectable or a close second to the Social Credit victor in all but one northeastern constituency, where the Labour Progressive candidate placed second. It had basically repeated that performance in 1948, yet following redistribution, the party in 1952 no longer ran candidates in the new constituencies of Lac La Biche, Bonnyville and St. Paul, while the Athabasca candidate was basically just showing the flag. The lack of candidates in these constituencies accurately reflected the almost complete lack of any organizational work by the provincial party. Surviving party records[68] suggest that, between 1948 and 1952, the party devoted most of its organizational efforts to the more central and southeastern ridings from Bruce, Vermillion and Alexandra south to Acadia-Coronation,[69] yet the popular vote in these constituencies in 1948 was lower than in the northeast. Even the party's organizational efforts in Redwater and Vegreville were less than in several of the more southerly constituencies.

There seem to have been three reasons for the party's curious strategy. First, given that the party's resources were limited and organizational work in any one area was bound to shortchange another area, party leaders probably chose the more southern constituencies because more ties still existed with the remnants of the United Farmers of Alberta political organization in that region. Second, the party seems to have preferred that the Liberals oppose Social Credit in the northeastern constituencies. The local CCF in the Willingdon provincial and Vegreville federal constituencies had sawn off with the Liberals in 1948, when Nick Dushenski ran unopposed by any Liberal in the provincial election. In return, the CCF did not nominate a candidate in the 1949 federal election, helping Liberal John Decore to defeat Social Credit MP, Anthony Hlynka,[70] whom the CCF regarded as a fascist and an anti-Semite.[71] It does not appear that there was another saw-off involved in 1952, but the earlier decision to unite with the Liberals to oppose Hlynka is suggestive of the CCF's thinking: party leaders were not averse to supporting the Liberals if it appeared that they had a better chance of defeating the Social Credit candidate. In general, party leaders regarded Social Credit as a fascist anti-Semitic party which was the true enemy of the people[72] and they were sometimes willing to sacrifice the possiblity of popular vote gains for Social Credit's defeat. The Alberta CCF abandoned the northeastern constituencies because the party viewed the defeat of Social Credit as its primary electoral task; it recognized that the Liberals had the resources to fight Social Credit in those constitutencies, whereas the CCF would have had to abandon some of the more southerly constituencies it regarded as its heartland.

The third reason for the CCF's disinterest in the northeast of the province was that party leaders did not believe that a lasting political organization could be built there given the ethnic character of the population. The French Canadian population was generally and probably accurately considered to be the Liberal's constituency. The CCF's attitude to the large Ukrainian population in many of the ridings was more complex. Although the party fared well in elections in such ridings and finally won Willingdon despite the presence of a Liberal candidate in 1952, there was no real constituency organization in Willingdon and Nick Dushenski, the CCF candidate, seldom talked about the party's philosophy.[73] Dushenski's success, which was probably built on a combination of personal popularity and community activism,[74] contradicted the party's belief that lasting success could only result from the gradual building of the organization by educating the population to the truths in the Regina Manifesto. Dushenski's re-election victory in 1955 coupled with the election of CCF candidate Stanley Ruzycki in the neighboring constituency of Vegreville did nothing to convince the party's leadership that they had been wrong in paying less attention to those constituencies than to the more southerly constituencies. Party leaders did not understand how Dushenski and Ruzycki could win when there was no organization except at election time and they did not believe that the movement had a future among a Ukrainian population which refused to organize,[75] or donate money to the cause.[76] CCF provincial secretary Nellie Peterson viewed the Ukrainian population as still revealing a "clannishness that is only slowly being broken down."[77] Peterson's comment accurately reflected the extent to which the provincial CCF still viewed its Ukrainian supporters and its two MLAs according to ethnic stereotypes. It was ironic, given that Dushenski was not entirely fluent or comfortable speaking Ukrainian on public platforms,[78] but his English was impeccable.

The CCF overlooked an area of potential political strength in the northeast ridings of the province. Many of these ridings had strong radical traditions and, although the Ukrainian community was certainly divided between left and right wing factions, the fact was that it was not receiving the recognition it felt it deserved from the Manning government. Social Credit's Ukrainian MLAs, some of the constituency associations, and various community representatives had been lobbying Manning for some time for a Ukrainian MLA to be placed in cabinet. At first they approached Manning on the basis that the province's large Ukrainian population deserved such recognition.[79] When Manning rejected this approach,[80] they argued that the northeast of the province deserved such representation[81] but Manning was adamant that cabinet appointment would be based on executive ability rather than geographic region, race, or religion.[82] During the 1955 election, they argued that, if Manning let it be known that a Ukrainian MLA would be in the next cabinet, it would help the government's election chances[83] but again Manning refused.

Although the activity of the Ukrainian lobby was doubtless encouraged by Social Credit's Ukrainian MLAs, the lobby seems to have represented a fairly widespread community sentiment[84] that Alberta's Ukrainian population deserved the recognition, prestige and power which could come with a cabinet appointment. A cabinet appointment in Alberta would symbolize that the Ukrainian community was accepted within the political mainstream, in much the same way as recent judicial appointments in Saskatchewan and Manitoba as well as the appointment of a Ukrainian Speaker in Manitoba had symbolized acceptance in those provinces. According to the lobby's secretary, Aberhart had been approached with the request for a cabinet appointment but he had "dismissed it by stating that there weren't any in this group [who] were qualified enough for such an appointment."[85] Now they wanted a sign from Manning to show that things had changed. Without a cabinet appointment, Social Credit's Ukrainian MLAs were vulnerable -- a lesson taught first by Dushenski (when he defeated William Tomyn in 1952), and then by Ruzycki (when he defeated Michael Ponich in 1955), but not learned by Social Credit or the CCF.[86]

While the Alberta CCF's disregard for the northeast of the province hurt its chances of building a lasting organization in the province, whatever remaining hope it had for success in 1955 was destroyed when the party elected to run an all out campaign in the federal by-election in Battle River-Camrose in the spring of 1955. In fairness, the CCF's by-election strategy was devised before the provincial election was called. Nevertheless, the energy dissipated by the CCF in Battle River-Camrose was probably directly responsible for Elmer Roper's defeat in Edmonton. The federal by-election was run as a model democratic campaign in the United Farmers of Alberta tradition and even the issues which the CCF candidate -- provincial party president Bill Irvine -- could discuss were voted on by the delegates to the nominating convention.[87] The provincial party seems to have focussed its attention on Battle River-Camrose partly because it was in the mixed farming area of the province they had chosen for organizational work, partly because a by-election provided an opportunity for the CCF to have a significant impact -- such as was no longer possible in a general election -- and partly because the provincial CCF wanted the federal party to pay more attention to Alberta. Irvine's candidacy was a gambit to show that the Alberta party was making a major effort on behalf of the national movement, in return for which the Alberta CCF wanted organizational and financial help.[88] Once Irvine was the candidate, the Alberta party's credibility was at stake and even when the provincial election was called the party chose not to cut back its by-election efforts.

Irvine and Magnus Eliason, the party's only two provincial organizers, were both working in Battle River-Camrose almost continuously from January 1955 until the day of the federal by-election, just one week before the vote in the provincial election.[89] Since they were unavailable to help in other areas of the province,[90] Roper was forced to travel to more nomination meetings and was able to spend less time on his own campaign.[91] CCF speakers from outside the province, perhaps due to the national party's influence, tended to be channelled into Battle River-Camrose region. Interestingly, although the Alberta CCF was contantly whining to the federal party about its financial woes, the party actually had a budget surplus of close to $10,000 throughout the 1950s.[92] In 1955, Roper, who frequently bailed the party out when it needed extra money and printed election materials without charge, could have benefitted if the party had paid for some local advertising, but the party leaders had just assumed he would win.[93] In any case, the budget surplus was needed for when changed economic conditions would signal the rebirth of the movement.

Although Irvine and Eliason helped organize the campaigns of the provincial constituencies in the Battle River-Camrose region, the party could not manage better than a third place finish in any of the central eastern constituencies south of Vegreville. While the CCF fought losing battles in those constituencies, the Liberals won Athabasca, Lac La Biche, Redwater and Bonnyville in the northeast. The Alberta CCF had budgetted $3580 for the central campaign in the provincial election[94] but after the provincial constituencies paid their quotas it wound up spending only $972[95] -- it just was not a priority. Even the CCF strategy of running a full scale campaign in the federal by-election in Battle River-Camrose seemed to have backfired since Irvine's candidacy was probably the major reason that Social Credit was able to nose out the Liberals to win the by-election.[96] Although it was a federal by-election, it was widely perceived as a test of public confidence in the Manning government and, as Social Credit had realized,[97] a defeat could have proved disastrous to its provincial election chances.

Elmer Roper's loss was deeply regretted by the Alberta CCF, but the party executive reflected that it had the comfort of knowing the Battle River-Camrose campaign had left "a valuable residue of organization and new contacts" unlike the snap provincal election which had tended "to retard rather than further organization of a more permanent type."[98] Four years later, in the 1959 provincial election, the provincial constituencies around Battle River-Camrose marked the graveyard of the old party. Other than in that area, in Willingdon, Vegreville, a couple of northwestern constituencies, and a few urban ridings, the party was not strong enough to field candidates; provincewide, it received only 4.33% of the popular vote. The Alberta CCF had not exactly produced its own grave-diggers, but it had helped.

Although neither the CCF nor the Conservatives were in a position to take advantage of the opportunity to gain seats in the 1955 election, Social Credit had not really been worried about them in the first place.[99] The government's election strategy had been designed to neutralize its only really dangerous opponent, J. Harper Prowse and the Liberals, by charging that Prowse's partisan greed for office had driven him to question the validity of seventeen years of legislation which, in turn, had necessitated the calling of the election. The Liberals were the only party strong enough to threaten Social Credit's electoral domination and Prowse was a capable and combative leader who had worked tirelessly in the late 1940s and early 1950s to re-establish a provincial Liberal organization which had been moribund from 1936 to 1945.[100] To a large extent he had succeeded. With the 1952 election, the Liberals had replaced the CCF as the most popular alternative to Social Credit but they had only elected 3 MLAs. Still, the party had gone on to establish at least skeletal organizations in most constituencies and party offices in Edmonton and Calgary and then, just when its political chances seemed most promising, it had stalled. By 1954, the Alberta Liberal Association's (ALA) organizational drive was at a standstill and Prowse seemed to have lost some of his interest in provincial politics and was instead pursuing a law career. The Liberals inability to pass the plateau they had reached by 1954 was partly attributable to flaws in Prowse's leadership of the party, but more directly to an ongoing dispute between the ALA represented by Prowse and the federal Liberal party which, in Alberta, was then under the control of George Prudham, the federal Minister of Mines and resources and MP for Edmonton West. That dispute resulted in a cutback in federal assistance to the ALA in the vital 18 month period before the 1955 election. Ironically, Social Credit may well have owed its 13 seat majority in the 1955 election to Prudham.

J. Harper Prowse was an energetic, charismatic and intensely partisan political leader. Unfortunately, his remarkable political instincts have never received due recognition.[101] His flaws, on the other hand, stood out clearly for all to see. He was impatient, erratic and too ambitious. At first, Prowse was an easy target for Manning, who pounced whenever Prowse played fast with the facts to score political points[102] or was too obviously partisan in his political attacks. But Prowse learned his political lessons well. He began copying Manning's political tactics, donned a cloak of nonpartisanship, and almost always backed up his claims with reputable sources.

Prowse's organizational work tended to consist of whirlwind tours. The Liberals were using Liberal Senator W.A. Roebuck's method of organizing which envisioned a methodical three stage development of constituency organization based on constituency convenors, district convenors and, eventually, block captains and poll captains.[103] It was a top down method of organizing which nevertheless could allow time for the creation and input of grass roots support.[104] However, Prowse was too anxious to reach the final stage of organizational work. As a result, he sometimes angered local Liberal supporters who resented their organization being imposed by the provincial party[105] and a leader who tended to act like a "'Commander-in-Chief of the Armed Forces' giving instructions to his subordinates."[106] In his impatience, Prowse too often attributed the party's lack of more immediate success to the defeatism of the party's supporters.[107] Although the Liberals soon had the organizational sophistication to conduct specialized appeals to youth[108] and to women, and to devise a regional organizational strategy based on a division of the province into 10 separate zones,[109] its attempts to involve the grass roots in drafting a provincial platform, fundraising, and even candidate selection were often disappointing.[110] The reality of Liberal organizational work by the end of 1953 was that most constituencies were not independently viable without the provincial party's help and Prowse's energy, but the party was having to cut back on its organizational work and Prowse's interest appeared to be waning. Although Prowse deserves some blame for his impatience and erratic work habits, the ALA's inability to move beyond its 1953 plateau was mainly due to the Alberta party's dispute with George Prudham and the national party.

The national party's assistance had been vital to Prowse when he began to rebuild the provincial organization following World War II. While Wes Stambaugh exercised influence over the federal party's activities in Alberta, first as President of the ALA and then as a Liberal Senator, he made sure that the party's workers and funds were used to help build the provincial as well as the federal organization.[111] In particular, Stambaugh consulted with Prowse regarding a myriad of federal appointments and patronage contracts[112] which helped to increase Prowse's profile in Alberta and to make the recipients of the federal government's patronage realize they had better help the ALA as well. Prowse's influence over federal patronage was particularly important in attracting new support to the ALA in the late 1940s since the federal government was only then re-establishing its lists of preferred dealers, following the abandonment of that practice during the war years.[113]

The ALA was depending on federal patronage to build the provincial party's strength but all of that changed once George Prudham took charge of the national party's efforts in Alberta.[114] The national party was worried by Social Credit's 'On To Ottawa Drive' and it relied on the ALA for information which could be used against Social Credit. After Social Credit's success in British Columbia, it wanted more influence over the strategy the Alberta party was using to fight Social Credit[115] in return for its funding and patronage assistance. Prudham viewed Social Credit as a fascist party which must be knocked out in Alberta first.[116] He also wanted the needs of the federal party to have first priority in organizational work.[117] Under his regime and in return for federal support, Prowse and provincial organizer Jim Connors geared their campaigning and organizing efforts to federal needs and reported directly to Prudham,[118] while the ALA's regional organization switched from provincial to federal constituency boundaries.[119] By 1953, even the federal election campaign was run from Prudham's office rather than through the ALA offices.[120]

Personal relations between Prudham and Prowse had quickly deteriorated. Prudham believed Prowse was too extravagant with party funds,[121] a view sometimes shared by Stambaugh.[122] More importantly, Prudham believed that the ALA should launch an all-out attack on Manning and his government. That advice, which had also been offered by Stambaugh, clearly expressed the national party's fear of Social Credit's 'On To Ottawa Drive.' Stambaugh had repeatedly urged Prowse to stop pussyfooting and to start attacking Manning and Social Credit for their dirty politics.[123] Prowse rejected the advice.

Like Prudham, Prowse believed that Manning's Social Credit government was a fascist menace to the personal liberties of Canadians, to freedom of the press, and to democracy. But Prowse also believed that provincial organizational work had to have priority[124] if the party was ever going to build an effective electoral machine in Alberta and he wanted the Liberals to sell a positive Liberal product rather than spending its time criticizing the government.[125] Most importantly, he wanted to avoid unwise attacks on Manning, largely because he believed those attacks backfired on himself and the Liberals.[126] It was not that Prowse thought that Manning ran a clean ship devoid of corruption or traditional political patronage. Indeed, he was convinced that the government was corrupt and that it was only able to hide its corruption due to its "ruthless willingness to use peoples' [sic] need of religion to further the political ambitions" of its leaders.[127] And Prowse certainly had no particular dislike of patronage. He gloried in back room politics and the power which a patronage contract could exercise to bring 'the boys' in line with Liberal wishes and he was certain that Social Credit was just as partisan. Of course, he was right.

For instance, the Alberta government was providing much the same kind of help to Solon Low, the federal Social Credit leader, as the federal Liberals had given Prowse. Social Credit referred to provincial ridings held by opposition members as 'orphan' constituecies.[128] One orphan constituency, Grouard, was held by the Liberals but it was adopted by Low, in whose federal constituency it lay. With the help of Gordon Taylor, the provincial minister of highways, Low was given the right to plan the constituency's road program in the early 1950s.[129] Even the province's district engineer reported directly to Low.[130] The provincial government spent a sizeable portion of its highway budget in

Grouard and it publicly gave credit to Low for every mile of road, bridge and culvert, both to help him win votes federally and in the hopes of taking the constituency away from the Liberals provincially.

Social Credit's highway politics in Grouard did not escape the attention of Harper Prowse.[131] Prowse viewed patronage as fair game. What he could not stand was Social Credit's hypocrisy and duplicity, the pretense that, unlike the federal Liberal government, the Alberta government did not operate on the basis of patronage and partisanship -- and the ability to get away with it. In Prowse's view, the key to Social Credit's ability to mask its political motivations was Manning's religious facade. Prowse likened Social Credit's political techniques to those of Hitler and Mussolini with the advantage that Social Credit could count on "Manning's Back to the Bible Hour broadcasts ... to build him up as a good man in whom people can have confidence."[132] He had no doubt that Manning's personal reputation as a good man was the single most important factor behind both Social Credit's electoral success and its ability to hide its own corruption.

However, unlike Prudham, Prowse recognized that Manning had a unique ability to turn any attack back on the attacker. According to Prowse, Manning would point out that Social Credit was pledged to rid the province of the filthy brand of politics exemplified by such attacks or he would argue that such attacks demonstrated the "need for Christian men in government." Prowse believed that "to try to attack Manning is to get yourself covered with mud. People who listen to Manning on Sunday will not believe anything against him." He had determined not to make such attacks himself unless clear cut evidence of wrongdoing existed and he tried to convince the federal party to adopt the same strategy:

> It is my suggestion that the best way [to attack Social Credit] ... is not to accuxe [sic] these people of any illegal or illicit operations, because Manning can make very effective use of this kind of thing by just standing there in his God-like manner and using that as evidence of the complete unreliability of the people who would make this kind of scurrilous charge.

Instead, Prowse recommended slanting attacks, which would not allow Manning to tag the Liberals with the label of political opportunism, such as rags-to-riches newspaper stories showing how successful some of the Socred cabinet ministers had become since they were elected.[133] At first, Prudham reluctantly accepted Prowse's strategy.[134] However, with the pressures of the 1953 federal election campaign, both Prudham and the national party once more began to use Prowse as a source for political dirt about Social Credit and, over Prowse's objections, they renewed their attacks on Manning and his government.[135]

From then on relations between Prudham and Prowse deteriorated rapidly. As of January 1954, Prudham cut off the federal party's funding of the ALA.[136] As a result, in the vital 18 month pre-election period of 1954-55, the ALA was constantly pre-occupied with financial problems and unable even to maintain its former organizational efforts. Financial appeals for provincial constituencies to undertake fundraising provided little help[137] because the local organizations were not yet well enough established to undertake that kind of work independently and, in any case, had too few community contacts to raise much money. The party's traditional large donors, who still probably owed their first allegiance to the national party, may have been following Prudham's lead when they insisted on waiting for the results of the ALA's constituency fundraising campaign before offering any assistance. By the summer of 1954, the ALA already had a $4,000 defecit.[138] Provincial pleas for a unified provincial-federal Liberal effort in Alberta, for the assistance of the federal party in using its patronage power to bring the party's friends onside provincially,[139] and for funds, brought little relief. Although Prudham restored some funding in mid-1954,[140] he proceeded with plans for the official separation of the federal organization from the Alberta organization.[141] Eventually the split between the federal and provincial wings of the party became more public when Prudham opened a federal headquarters separate from the ALA in Edmonton. Prowse tried to put a brave face on matters by insisting that the jobs of the federal and provincial parties seldom overlapped,[142] but no experienced political observer would have believed that. Seven days later Ernest Manning called the 1955 provincial election.

Although it is difficult to gauge the damage which the federal party's withdrawal of support caused to Prowse and the Alberta Liberals, both the party's organizational work and Prowse's speaking tours seem to have been cut back. The ALA was unable to push its organizational drive beyond the plateau it had reached by the end of 1953. The federal withdrawal of support had a second effect. It was during the 18 months prior to the 1955 election that Prowse's interest in provincial politics began to flag. Prowse, with some justice, regarded Prudham as politically naive,[143] and he was a smart enough politician to know that so long as Prudham controlled the party in Alberta, his future was limited. To a large extent, Prowse's energy had sustained the ALA through the late 1940s and early 1950s. The withdrawal of Prowse's energy, following Prudham's cutbacks, hurt the ALA the most.

With the 1955 election call, federal support was apparently restored to the Alberta Liberals whose election budget of $27,000 for advertising for the central campaign[144] approached Social Credit's advertising budget of $36,000.[145] Significantly, the Liberal campaign was fought on the basis of federal constituency boundaries with a view to facilitating organization for the next federal campaign[146] and Prowse contradicted all the lessons he believed he had learned and launched into the most vigorous and sustained attack of his career on Manning and his government. It was probably what Social Credit wanted.

[v]

Social Credit was almost certainly hoping that Prowse would fall into the trap of attacking Manning. Social Credit members seem to have recognized that Prowse often had to act at the behest of the national Liberal party and they believed Prowse was prone to overplay his hand to get the results the federal party wanted.[147] They were also convinced that whenever Prowse, who one Socred wag nicknamed "Harping Prowse, the louse,"[148] stooped to attacking Manning personally, the attacks boomeranged and ended up strengthening Social Credit's position -- exactly as Prowse himself believed.[149] In 1955, Social Credit was confident that Prowse would be the loser in any contest for public credibility with Manning. In an election appeal to the people, Manning's guarantees of the government's honesty and integrity would be believed and Prowse would stand exposed as a political opportunist. Nevertheless, a few weeks later, as the election was drawing to a close, Social Credit was desperately looking for a way to avoid a massive election upset.

Manning carefully cultivated his image as a guardian of public morality but he was most effective when he contrasted his government's high standards to the political opportunism of his opponents. Through the spring of 1955, as the opposition's charges against the government had multiplied, he had emphasized, in his 'These Are The Facts' broadcasts, his belief that the highest possible standards must be observed in public life and he had given his assurance that he would do everything in his power to maintain those standards.

> These are not matters of mere personal opinion. Truth is absolute and not something that depends on the opinions of erring men. There are no 'ifs' and 'ands' and 'buts' with respect to what is right and decent, honorable and true whether it be in our individual lives or in the conduct of our public affairs. That's why as long as it is my privilege and responsiblity to lead the government of your choice my colleagues and I will strive constantly to preserve and enhance Alberta's good name ...

In this particular broadcast Manning cited four tactics which the opposition had previously used against Social Credit -- ridicule, misrepresentation, constitutional attacks, and allegations that the government was in league with big business -- and he warned of a fifth tactic, which the opposition was now employing -- to attack the honesty and integrity of the government and its members. Manning, with his unique ability to make normal partisan politics seem sinister and conspiratorial, warned: "What some of you may not realize is that the present barrage [of opposition charges] is part of a deliberately planned new attempt by men antagonistic to the government of your choice to create doubt and suspicion in the public mind." The opposition was engaging in "vicious attempts to shake your confidence in the government under which this province has attained an unequalled record of achievement and a reputation for honesty and integrity in the conduct of public affairs of which we can all be justly proud."[150] Manning's contrast of his government to the opposition followed a formula which had always worked in the past largely, as Prowse realized, because of Manning's reputation as a good man. Social Credit had every right to believe it would work again in the 1955 election.

According to the formula, Manning represented the people, acted on behalf of the people and bore responsiblity for preserving the reputation which the people's high standards of conduct had earned; the opposition, by attacking Manning, attacked the democratic wishes of the people in order to achieve political goals by underhanded means. When Manning announced the 1955 election, he invoked this formula once again and attempted to turn the campaign into a crusade against the opposition's attempts to drag political life down into the gutter. He appealed for

> such an overwhelming vote of confidence and re-endorsation that you will repudiate for all-time, the unworthy tactics of those who are hitting below the belt in their efforts to gain their political ends. The time has come when all people who respect truth and
>
> place for that sort of thing in the public life of this province.

According to Manning, the opposition was having to resort to gutter politics to satisfy their partisan greed for office because the government's record was not susceptible to fair attacks.[151] The opposition's allegations were not true; rather they demonstrated that opposition politicians would stoop lower than "one human being could say of another" to throw dirt.[152] Manning forewarned the public that they would undoubtedly hear more such accusations before the election was over which would further prove that the opposition was trying to destroy public confidence in the government.[153]

This time the formula did not work. Manning's fervid avowals of his government's honesty and his vitriolic denunciations of his opponents, claiming in a single broadcast that the opposition was engaging in a vicious, malicious, dishonest, desperate, below the belt campaign,[154] were not enough. Social Credit had never claimed to be a government like any other. Rather it had laid claim to a heightened morality and to a leader who was above the common political fray. The Lee/Landeryou scandal had damaged Social Credit's credibility, demonstrated its vulnerability, and aroused the skepticism of the public. The opposition's other charges during the spring session fed a growing doubt about the honesty of the government. But once the campaign started it was the vigor of Prowse's attack, abetted by the slashing anti-Social Credit tactics of Alberta's two major dailies, the Edmonton Journal and the Calgary Herald, which undermined Manning's personal reputation and threatened Social Credit's hold on government. Alleged government corruption was the campaign issue; it was Prowse's issue and, in most respects, it was Prowse's election.

Although Manning's snap election call had caught Prowse by surprise, he was not about to let Manning occupy the higher ground as the defender of public morality against opposition opportunism. Whatever deal Prowse had worked out to win back the federal party's support and whatever promises he had made to Prudham, Prowse's 1955 election strategy was simple: attack. This time, Prowse courted a direct battle with Manning and shamelessly mimicked Manning's tactics. He countered Manning's °These Are The Facts' broadcasts with his own °Fact and Fancy' and when Manning issued a provincial leaflet entitled °The Facts About Treasury Branch Loans, a personal message to the people of Alberta from Premier Ernest C. Manning',[155] Prowse published his own °A Personal Message' leaflet.[156] Whatever Manning's version of the truth, Prowse countered with his own.

He attacked Manning's authoritarianism and claimed the Premier was really asking for a mandate to continue one man government. He charged that Manning had called the election to avoid having to answer the questions the opposition had been asking in the legislature.[157] According to one Liberal advertisement, it was democracy which was on trial during the election, while another invited the people to judge whether they approved of the Premier's beliefs that the opposition should not be allowed to ask questions and that the government's financial dealings were nobody's business.[158] Fellow Liberal MLA Hugh John Macdonald asserted that a myth had developed "that a government led by a good man like Mr. Manning could do no wrong" and that, "in order to protect this myth the government has refused to make information available in matters concerning public business," such as during the recent Public Accounts Committee hearings.[159] Another Liberal ad demanded 'Make the public's business public' and Prowse repeatedly called for a Royal Commission to investigate the government's business dealings[160] and promised that a Liberal government would allow annual Public Accounts Committee hearings. Why had Manning tried to change the Legislative Assembly Act to make it legal for government MLAs to hold Treasury Branch accounts and why had he held an election on this issue? According to Prowse, Manning was asking for a mandate to continue "permitting members of the government to finance their personal businesses and speculations by borrowing money from the provincial Treasury."[161] The Treasury Branches were just "private piggy banks for government members."[162]

The Liberals had a special tactic for attacking Manning's image as a deeply religious and incorruptible man. The Rev. Edgar J. Bailey, a Baptist and a Liberal candidate in Edmonton, in several radio broadcasts, damned Manning's alleged equation of Social Credit with Christianity as a heresy and "the very coming of the anti-Christ in religion-Political disguise." "Piety," the Reverend intoned "is no substitute for good clean political administration."[163]

Prowse's attacks were given lavish newspaper coverage, particularly by the Calgary Herald, which was only slightly less partisan than Prowse himself. The Herald portrayed the election as an issue of public morality and democracy versus dictatorship.[164] In its last edition before the election, it ran a front page editorial stating that the electorate's choice was "between decency in public life and the kind of government we have been getting" and urging voters to "clean up the mess in Edmonton," by sending the present government packing. Three separate editorials inside the same issue reinforced the paper's call for a return to government with integrity and repeated one last time that "Social Credit is thinly disguised fascism ... anti-semitic, authoritarian."[165] Similarly, the Edmonton Journal editorialized that a Socred victory would indicate that corruption was all right in public life and urged voters instead to use the election as an opportunity for a return to responsible government.[166]

In contrast, Social Credit's campaign ads invited Albertans to: "Compare Alberta with the rest of Canada then vote Social Credit... Let's carry on with sound, honest, efficient government."[167] However, the party's attempt to run on a record of providing good government could not stand up to the opposition's barrage of criticism and insinuation. Social Credit recognized that the opposition's charge that the Treasury Branch showed favoratism in its loans to Social Credit MLAs was potentially dangerous and it called on Superintendent Olive's help to bolster Manning's credibility on this issue. Olive donned the guise of an outraged civil servant and wrote an angry letter to Manning at once damming and denying the opposition's charges that the Branch was subject to partisan pressure and that any of its loans to Social Credit MLAs had encountered repayment difficulties.[168] Social Credit then published Olive's letter as an unimpeachable, nonpartisan testimonial, in an election leaflet for provincewide distribution entitled "The Facts About The Treasury Branch Loans, a personal message to the people of Alberta from Premier Ernest C. Manning'.[169] The partisan leaflet, which made a mockery of the supposed arm's length relationship of the Branch to the Manning government at the same time that Olive attempted to defend it, did nothing to remove the Treasury Branch from the election spotlight.

Two weeks after the election was called Manning was still trying to explain why he had first dismissed Prowse's suggestion that Socred MLAs with Treasury Branch accounts might be in the house illegally as ludicrous and then decided it was important enough to call an election.[170] On June 8th, he relented and announced that the government would reverse its previous stance and once more make it illegal for MLAs to have Branch loans.[171] But the issue of the relationship between the Branch and the government still would not go away. Even before Manning had called the election, Social Credit MLAs had been busy switching their Branch accounts to the banks so that the opposition could not obtain temporary court injunctions to prevent them seeking re-election.[172] While the various government departments checked their records for any opposition members with government contracts,[173] Manning publicly announced that no Socred candidates for M.L.A. any longer had Treasury Branch accounts. One day after his reversal on the issue of Branch loans, Manning discovered that Edmonton candidate Dr. Lou Heard still owed $10,000 to the Branch. Manning had been wrong. Heard was forced to resign his candidacy and the runner-up at the nomination meeting took his place.[174]

Such reversals and errors hurt Manning's credibility. These particular examples were pounced on by Prowse when he demanded answers concerning his Company A, Company B allegations a few days later. "Who," Prowse asked, "but a frightened man could reverse his field so often in such a short period of time?"[175] As was mentioned in Chapter 1, Prowse's charges concerning the O'Sullivan, Mannix, and Sparling involvements with the government were backed up by a series of cogent questions which Prowse demanded that the Premier answer. Since the start of the election, when Prowse had called on the government to answer the questions left on the order paper, he had been using the hustings as if they were a giant legislature. He kept asking questions and eventually the government decided it was better to make public its answers to the questions on the order paper.[176] The problem was that then Prowse kept right on demanding answers to other questions; Social Credit could not really stop answering or it would appear to be hiding something. Its election campaign strategy of attacking the political opportunism of the opposition had deteriorated into a series of opposition allegations and government responses.

Furthermore, it was not only the opposition parties and the newspapers which were attacking Social Credit. In late May, the Canadian Construction Association complained about the "very unsatisfactory conditions ... prevalent in tendering practices of the Alberta government."[177] Complaints from contractors about the government's refusal to open contract bids in public were nothing new but their potential for damaging the government was obvious during an election period. From the government's point of view, complaints from respectable organizations which could claim to nonpartisanship appeared to provide credence to the opposition's rumour-mongering and encouraged other groups with grievances against the government to speak out. In June, the Alberta Association of Architects added its voice of protest about the secrecy of the government's tendering process just when Social Credit was trying to explain why Ytong blocks had been called for in the specifications for the Jubilee Auditoriums.[178]

Along with their more partisan attacks on Social Credit, opposition politicians and newspapers were also beginning to ask some serious questions about the government's handling of public finances; about whether the public was getting fair value for the tax dollars the government was spending on highway construction; about why the Treasury Branch so often ran a deficit despite the fact that, unlike banks, it paid no municipal taxes and most rental costs were paid for by the Department of Public Works; and about whether Manning had really been qualified to serve as Treasurer from 1944 to 1954.[179]

However, the opposition was also discovering that, in the heated atmosphere of the 1955 election, innuendo, insinuation and rumour could just as easily capture headlines as hard facts. Perhaps for the first time in Manning's political career, the tactic of turning the fire back onto the questioner was not working. No one had collected more rumours about government shenanigians than J. Harper Prowse and he was prepared to fight a vicious campaign if that was what it took to defeat Social Credit.

In the final two weeks of the campaign, Prowse threw just about every allegation he had ever heard at the Manning government, including some he had known about for years. Prowse charged that Alfred J. Hooke, the minister of Public Works and of Economic Affairs, owned shares in Ideal Homes, a company connected with the land buys for the government's Campbelltown development near Edmonton.[180] He charged that W.W. Cross, the Minister of Health, had holdings in Riverbend Oil Co. Ltd. which was leasing crown land and that Cross therefore had violated The Prohibition of Dealing in Crown Lands Act of 1949.[181] He accused Manning of trading land he owned to improve his mineral rights. Prowse exaggerated the figures but it still appeared that Manning had traded land with five legal drilling sites for land with eight legal drilling sites.[182] He made further allegations concerning the Branch's dealings with O'Sullivan and Mannix and asked:[183]

> Is the premier prepared to tell the people of Alberta the total amount of money which has been provided for this maze of companies, with their interlocking directors, by the treasury branches, Marketing Services Limited, the Alberta Industrial Corporation, and any other organizations whose funds are either supplied or guaranteed by the taxpayers of this province?

It was a good question. There were allegations that Socred M.L.A.s had profitted from Yankee Princess stock investments while the government held up the company's gas export permit and suggestions that cabinet member Ivan Casey had profitted from the sale of crown grazing land. When the Liberals ran out of accusations, they placed ads in the major dailies posing insinuating questions for Social Credit to answer: "What happened to the BILLION AND A QUARTER Mr. Manning has had to spend since 1945?"[184] The Tories chipped in with some more allegations that the Treasury Branch was favouring government MLAs.

Manning, at one point accused Prowse of trampling underfoot the concept of decency in public life by spreading rumors about Manning's personal wealth and even insinuating that the recently deceased minister of agriculture, David Ure, had amassed a fortune while in public life, had purchased a "magnificent farm" using Treasury Branch funds, and had left an estate valued at $300,000 when he died. Manning asked his own question of the voters: "how much confidence do you feel can be placed in any statement made by political spokesmen or newspapers who have proven themselves in these matters to have absolutely no regard or respect for either truth or decency?"[185] Prowse denied he had ever made the charge[186] and joined with the Journal in denouncing Manning for introducing red herrings into the campaign.[187] Although there is no evidence that Prowse ever made those two charges in public, he was likely the source of the rumors. The charges, together with the Casey allegation and the Yankee Princess stock issue, were all passed to the national Liberal party by Prowse in 1953, with the caveat that Prowse did not have enough proof to make any of the charges stick and the recommendation that they not be used.[188]

Some of Prowse's tactics were unsavory but he was absolutely convinced that he was fighting a man who used religion for political purposes and a government which was corrupt. He also probably knew that this was his best, and perhaps only, opportunity to defeat Manning. As it turned out, the limits of Prowse's victory in 1955 were largely attributable to the weakness of the Liberal organization. When the national party restored funding, Prowse was able to mount an impressive central campaign but too many provincial constituencies were unorganized. In too many cases, the Liberals lacked the local credibility which could be essential to victory and it had to rely on arrangements with other opposition parties. Although the ALA had always publicly taken the stand that the Liberal party would not make deals with other parties,[189] in practice, it was willing to cooperate to further its own goals.[190] There were two forms of cooperation in 1955. First, Prowse publicly urged the electorate to use its alternate choices on the ballot to vote only for opposition candidates[191] and it appears there may have been a private agreement between Prowse and Elmer Roper that each party would encourage its supporters to allocate their second choices to the other party.[192] Second, Prowse offered the Liberal party's encouragement to several of the independent, coalition and Liberal-Conservative candidates.[193]

Although the Tories were convinced these candidates were closet Liberals, the independent, coalition and Liberal-Conservative campaigns of the 1955 election appear rather to have arisen spontaneously as expressions of community-level anti-Social Credit sentiment either because no alternate political organization existed or, if one did, because it was too weak to mount a strong campaign. In each of the 8 rural constituencies where an independent, coalition or Liberal-Conservative candidate ran in 1955 (Bow Valley-Empress, Hand Hills, Ponoka, Banff Cochrane, St. Albert, Okotoks-High River, Pincher Creek-Crowsnest, and Didsbury), the Liberals had finished second in the 1952 provincial election. None of the 8 constituencies had had independent candidacies in 1952 so the candidates were not drawing on an active tradition of nonpartisanship or coalition politics. The Liberals would not willingly have abandoned these constituencies after 1952 and indeed they ran candidates in 3 of them in 1955. In the others, there was simply no longer a viable Liberal organization so, once an anti-Social Credit candidate was nominated, the ALA offered its cooperation and channelled its scarce resources to constituencies where there was at least a skeletal Liberal organization. In three other constituencies, Red Deer, Stettler and Lacombe, where there was a Tory candidate already nominated, the weak local Liberal organizations decided independently to avoid nominating a Liberal candidate.[194] The damage to Prowse's election chances from Prudham's cutbacks is reflected in the fact that the Liberals managed to nominate 55 candidates in 1952. By 1955, they could only nominate 53.

Social Credit did not recognize that the independent candidacies were a sign of the weakness of the opposition parties. Rather it viewed these campaigns, together with the call to take advantage of the preferential voting system, as indications that the opposition parties were conspiring together in an all-out campaign to defeat Social Credit.[195] It was all part of the anti-Social Credit conspiracy which was attempting to destroy public confidence in the government by challenging the honesty and integrity of the Social Credit MLAs.

As mentioned, once the government had begun responding to Prowse by answering the questions on the order paper, it could not really stop. Although the government was trying to demonstrate that it was not hiding anything -- while simultaneously rejecting demands for a public inquiry into the government's business dealings -- its answers to Prowse's charges soon constituted an embarrassingly long list. It refuted allegations of profit taking on government land purchases, denied that the Branch showed favoratism in its loans to Social Credit MLAs, and claimed that it was not favoring companies such as Ytong in its contract specifications. Maynard, Casey, Cross and Manning all denied that there was any truth in Prowse's specific allegations against them.[196] When Liberal advertisments posed questions for the government to answer, Social Credit advertisements answered back.[197] But it all seemed to be to little avail because the charges kept coming and public doubt seemed to keep growing. When it came to dealing with partisan allegations, Manning had broken his own first rule of statesmanship:[198]

> Personally I have never felt that it was within the realm of statesmanship to recognize or bother to refute impressions created by such tactics, the purpose of which are [sic] obvious to all. I am inclined to agree with the wisdom of the old adage 'Never explain. Your friends don't require it and your enemies won't believe you anyway.'

As the election wore one, the government realized that it was in trouble but there seemed to be little else it could do to counter the opposition attack. When Prowse's Company A Company B charges were made, the government was once more placed in the position of having to issue a denial. This time Manning's denial was preceded by one from Mannix Ltd.:[199]

> ...Mannix Ltd's transactions with the treasury branches and the government of Alberta have always been on a completely honest and purely business basis. All contracts obtained from the government have been by competitive bidding and the results have been published in the press. We have never obtained any work from the government on any other basis.

With just two days left in the campaign, Manning also refuted Prowse's charge:[200]

> I can say categorically that no such preferential treatment has ever been accorded by the government to any company. Road contracts are awarded by public tender to the lowest bidder. If the contract is not given to the lowest bidder, an order-in-council must be passed setting out the reasons why the lowest tender is not accepted. Road contracts obtained by the company referred to [in the accompanying list] were obtained on the basis of the company being the lowest bidder with one exception.

Manning's denial was accompanied by a list of highways contracts awarded to Mannix Ltd., Mannix-O'Sullivan Paving Co. Ltd., and Mannix-Robertson Ltd.; the exception was a contract which the low bidder was unable to start on time, and which was therefore given to the second low bidder, Mannix-O'Sullivan.[201]

In reality, both Mannix Ltd.'s and Manning's denials were fabrications. Several of the Mannix companies' contracts were negotiated rather than being won on the basis of competitive bidding.

Even Manning's list of contracts which, because it dealt with a narrow time span, did not have to include most of Mannix's negotiated contracts, recorded one contract as low bid which was actually negotiated (748/53) and omitted some negotiated extensions to the original contracts on the list. The government's contracts with O'Sullivan Construction, which would have included several negotiated contracts, were not included in the list.

Manning clearly realized that simply denying Prowse's allegations was not enough. It had not stopped public doubt from increasing in the past and, even with Mannix Ltd.'s corrobroating statement, it could not be expected to do so now. Therefore, at the same time that he denied Prowse's allegation, he let it be known that he was considering suing Prowse.[202] The next day, Manning's threat of a lawsuit was reinforced by Mannix's own announcement that he had filed a notice of intent to sue the Edmonton Journal and the Calgary Herald for a grand total of $5 million for their coverage of the Company A Company B issue.[203] Manning had delayed his threat of a law suit for almost two weeks after Prowse first made his charge, probably in order to gain a maximum impact on the voters before they cast their ballots.

The next day -- the last day of the campaign -- Manning finally and reluctantly committed the government to an inquiry into the opposition's charges. All through the campaign Manning had argued that the real purpose behind the opposition's demands for an inquiry was "not concern for the public interest but rather the hope of furthering their own political ends." He had argued that the MLAs were not responsible to any inquiry, but rather to the people and that he had called an election because he respected the people's right to judge their elected representatives.[204] Now, even though a Royal Commission inquiry was probably the last thing Manning wanted, and even though Prowse had earlier scored Manning for his reversal on the legislation allowing MLAs to borrow from the Branch, Manning once again reversed one of his stands and promised a Commission.

Manning must have realized that neither Social Credit's vaunted political organization nor his own reputation for incorruptibility was going to stop the opposition this time. The promise of a Royal Commission was a last gasp effort made by a Premier anticipating an election disaster and desperately seeking some way of recapturing the political initiative from Prowse so as to lessen the electoral damage to his party. His government had been trying to avoid the opposition's attempts to pry into government contracts ever since the spring session of the legislature had opened and instead it had wound up running an election campaign which threatened Social Credit with massive losses and promising a Royal Commission which potentially could destroy Social Credit. Manning's last minute panic was not yet over.

When Lee and Landeryou had been forced to resign their seats, Manning had not condoned their breech of the Legislative Assembly Act, but he had expressed regret and emphasized that they had relied on the advice of their lawyer and had broken the law unwittingly.[205] Actually, the strategy of blaming their legal counsel may have originated with Social Credit MP John Blackmore, who had earlier suggested it in a letter to Lee.[206] In any case, the government's association with Lee and Landeryou had hung like a millstone around Manning's neck all through the campaign. The Liberals, in particular, had defined the Manning government's ethical standards according to the example set by its two former MLAs.[207] On election eve, in one final effort to cut Social Credit's losses and undo the damage done by his acceptance of Lee and Landeryou as official Social Credit candidates, Manning repudiated both gentlemen.

According to Solon Low, on election night, "Mr. Manning seemed grave and thoughtful all during the evening, although he didn't indicate that he was in a mood of turbulence by any means."[208] Manning had good reason to be thoughtful. The final election results gave Social Credit 37 seats and the Liberals 15 seats. The Conservatives elected 3 MLAs, the CCF elected 2 MLAs, and there was 1 MLA each elected as a Coalition, Independent, Independent Social Credit, and Liberal Conservative. Social Credit's majority had been cut from 46 seats to 13 seats. Manning had not received the overwhelming vote of confidence for which he had asked and, though he had a majority, it was the slimmest Social Credit had ever known. But, at least the government's future course was now clear. The opposition's charges of corruption would finally be faced in a Royal Commission inquiry. During the election, Manning had publicly vouched for the integrity of the government's contract awards and denied that there was any preference shown to the borrowing customers of the Treasury Branch--that was what the Royal Commission would have to find.

Endnotes

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1. Another part of the Branch's public image was its service orientation--its role in helping small operators and in providing banking services to small communities. An investigation of this side of the Branch lies beyond the scope of the present work. However, it should be noted that this side of the Branch's image was sometimes used to explain away both the Branch's problems in making a profit and any loans problems which became public. For instance, in March 1955, Manning explained a reference by the auditor to the repayment problems the Branch was having with some of its loans as concerning basically loans to farmers who had asked for extensions so that they could repay their debts.Edmonton Journal, 24 March 1955.

2. "Public Accounts Committee," 25 March 1943, 87.316.

3. "Public Accounts Committee," 23 March 1948, 69.289/2281E.

4. "Olive to Manning," 23 Sept. 1944, 69.289/939; "Percival to Olive," 31 Jan. 1945, 69.289/938B.

5. "Percival to Olive, cc Manning," 8 May 1947, 69.289/1421; "Percival to Olive, cc Manning," 10 Oct. 1947, 69.289/1421.

6. Edmonton Journal, 24 March 1955.

7. "Public Accounts Committee," 23 March 1948, 69.289/2281E.

8. "Public Accounts Committee," 23 March 1948, 69.289/2281E.

9. "Provincial Auditor to Deputy Provincial Treasurer," 15 Aug. 1946, 69.289/1421; "Percival to Olive," 8 Apr. 1947, 69.289/1421. Manning received a copy of both memoes.

10. "Olive to Manning," 16 Nov. 1946, 69.289/1421; "Olive to Manning," 23 Feb. 1948, 69.289/1772A.

11. "Public Accounts Committee," 23 March 1948, 69.289/2281E.

12. "Public Accounts Committee," 25 March 1943, 87.316.

13. "Public Accounts Committee," 23 March 1948, 69.289/2281E.

14. Ibid.

15. "Provincial Auditor to Deputy Provincial Treasurer," 23 Aug. 1947, 69.289/1436.

16. "Budget Speech Delivered by The Hon. C.E. Gerhart Treasurer of the

Province of Alberta, March 9th, 1955," Edmonton. A. Scnitka, Queen's Printer, 1955.

17. Alberta Scrapbook Hansard, 24 March 1955.

18. "Huckvale to Manning," 15 July 1954, 69.289/1772B.

19. An opinion poll commissioned by Social Credit in 1956 after the Royal Commission had absolved the government of all wrongdoing showed that 40% of the respondents still believed the opposition charges had been partially justified while 14 % thought them fully justified. "Alberta Province, Preliminary Report," 83.353.

20. Alberta Scrapbook Hansard. 24 February 1955.

21. "Evidence Before the Public Accounts Committee of the Alberta Legislature," Session 1955, 69.289/1676B.

22. Edmonton Journal, 12 May 1955.

23. "12 May 1955," 69.289/1671; "No. 19, These Are The Facts, Honorable E.C. Manning, Week of May 16, 1955," M100, John Blackmore Papers, Glenbow-Alberta Institute.

24. "Alberta Social Credit League Twentieth Annual Convention," 23, 24 Nov. 1954, 69.289/1843.

25. For some of the major donors to the ASCL see 69.289/2176.

26. "Minutes of Board of Directors," Alberta Social Credit League, 30 Aug. 1955, 69.289/1843; "Report, The Alberta Social Credit League, Constituency Executives' Conference," 4 Apr. 1956, 82.153, Provincial Archives of Alberta. The League will henceforth be abbreviated ASCL.

27. "Presidents' Conference," ASCL, 29, 30 March 1951, 69.289/1846A.

28. This analysis is based on a study of available minutes from the Presidents' Conferences in 72.309 and 82.153, Provincial Archives of Alberta.

29. For the view on one Alberta MLA who believed Social Credit was wasting money and effort in ill-planned initiatives in the national field, see "Floyd Gilliland to Solon Low," 11 Dec. 1953, M695/174.

30. The Red Deer by-election was held as the result of the death of popular agriculture minister David Ure. Social Credit leaders attributed the loss to the complacency of the party's supporters. "National Conference - The Social Credit Association of Canada," 21 May 1954, 69.289/1835.

31. "Kennedy to Dear Sir," 10 Jan. 1955, 69.289/1855.

32. "Minutes of the Meeting of the Board of Director," ASCL, 30 Aug.

1955, 69.289/1848; "Report, The Alberta Social Credit League, Constituency Executives' Conference," 4 Apr. 1956, 82.153.

33. For instance, Social Credit resented the news coverage provided by the Calgary Herald and in one broadcast Manning rebutted a Herald story and accused the paper of "juvenile assininity" and providing news coverage which came "near to journalistic insanity." ("No. 3, 'These Are The Facts', Week of January 24th, 1955," M100.) Manning's attack provides an example of his tendency to hyperbole in his denunciations of his opponents. However, the Herald was aggressively anti-Social Credit both in its editorial policy and its new coverage, particularly during the 1955 election.

34. Edmonton Journal, 2 June 1955.

35. "No. 19, 'These Are The Facts', Week of May 16, 1955," M100.

36. "Gilliland to Low," 10 Apr. 1955, M695/174; "Constituency Executives' Semi-Annual Conference," ASCL, 6 Apr. 1955, 82.153.

37. Canadian Social Crediter, June 1955.

38. Ibid.

39. See S.C. MLA Cornelia Wood's notes on Manning's address to the 1955 convention, 86.125/133, Provincial Archives of Alberta.

40. "Manning to M.H. Sorenson, President, Wetaskiwin S.C. Constituency Association," 24 May 1955, 69.289/1843. Manning asked Sorenson for help in persuading Wetaskiwin MLA J.A. Wingblade not to retire but to seek re-election.

41. "Manning to Mrs. J.H. Bannister," 6 June 1955, 69.289/1844. In Edmonton, William Tomyn, who had basically been ostracized by the party following the 1948 purge, sought and apparently received Manning's blessing to try for and win a nomination. However, Tomyn was not a candidate until 1959. "Tomyn to Manning," 26 May 1955, 69.289/1844; Manning to A. Stelter," 13 July 1956, 69.289/2175. Wilkinson was the seventh Social Credit candidate seeking to be one of Calgary's six MLAs.

42. "Peter Elliott to R.B. Worley," 14 Oct. 1955, 69.289/1843.

43. "Gilliland to Low," 15 May 1955, M695/174. Also see 69.289/1844.

44. The Edmonton candidates ran as Progressive Conservatives and the Calgary candidates ~~as~~ Conservatives. Wark, Report on Alberta Elections, 15.

45. The Progressive Conservative Party of Alberta Papers (M1744) and the W.J.C. Kirby Papers (M6646), both located at the Glenbow-Alberta Institute, are the two best sources on the party in the 1950s. For the party's 1954 activities see M1744/2.

46. "Minutes of the Progressive Conservative Association Meeting Held in the Palliser Hotel," 15, 16 April 1955, M6646.

47. "Speech by W.J.C. Kirby, M.L.A.," 6 Jan. 1959, M1744/77.

48. "Report of the Policy and Resolutions Committee ..." National Conservative Convention, 1954, M1744/3. Aslo see Eugene Forsey's "Creeping Republicanism," 14 Jan. 1955, M1744/3.

49. For one example see "Resolutions prepared by ... the Calgary North Conservative Association," 1956, M1744/51.

50. "Calgary North Constituency Association Annual Meeting," 19 March 1956, M1744/51.

51. "Statement issued by Conservative M.L.A.s at 10.00 p.m., May 12. [1955]" M1744/88.

52. *Edmonton Journal*, 21 May 1955.

53. The profile is based on the biographies of the candidates (M1744/78) and on the 1955 election returns. Wark, *Report on Alberta Elections*.

54. "Mrs. Jean Robinson, President, Alberta Women's Conservative Association, to Mrs. W. Niblock," 31 May 1955, M1744/58. For further information see M1744/65.

55. "The State of the Movement by Donald C. MacDonald," Jan. 1953, M1722/3. The Alberta CCF Party Records (M1722) are found at the Glenbow-Alberta Institute.

56. For two examples of the party's tendency to defeatism see "Nellie Peterson to Beatrice Woods," 21 Jan. 1953, M1722/6; "Mrs. Harry Stott to Editor, *The Commonwealth*," 14 Jan. 1956, M1722/233. Peterson was the CCF Provincial Secretary. Stott's letter concerns an address given by Peterson. Also see Robin Hunter, "Social Democracy in Alberta: From the CCF to the NDP," *Essays in Honour of Grant Notley: Socialism and Democracy in Alberta*. Edited by Larry Pratt. (Edmonton: NeWest Press, 1986), 58-60.

57. Myron Johnson, "The Failure of the CCF in Alberta, An accident of history?" (M.A. thesis, University of Alberta, 1974); Anthony Mardiros, *William Irvine: The Life of a Prairie Radical*, (Toronto: James Lorimer & Co., 1979); Olenka Melnyk, "Dreaming of a New Jeruselam inthe Land of Social Credit: The Struggles of the CCF in Alberta," in *Socialism and Democracy in Alberta: Essays in Honour of Grant Notley*.Edited by Larry Pratt. (Edmonton: Newest Press, 1986), 40-56; Robin Hunter, "Social Democracy in Alberta: From the CCF to the NDP," in *Ibid*., 57-87.

58. Hunter, "Social Democracy," 82.

59. "Executive Committee Meeting," Alberta CCF, 7 Jan. 1956, M1722/119.

60. Hunter, "Social Democracy," 58.

61. "Peterson to Mrs. Albers," 27 Jan. 1958, M1722/221.

62. "Contents of Letter sent to National Office Concerning the Draft Manifesto," n.d., M1722/45.

63. "Ammendments to First Draft, Confidential," 4 Sept. 1951, M1722/45.

64. "Meeting of Naitonal Council," CCF, 1, 2 Oct. 1949, M1722/11.

65. Hints about the relative lack of importance of elections may be found in "Alberta CCF Provincial Board Report," 10 Dec. 1955, M1722/119; "President's Address," Alberta CCF Convention, 1958, M1722/137. Party leaders seemed to believe that elections absorbed time, money and effort without producing any lasting result.

66. "Peterson to Hazen Argue," 30 Jan. 1957, M1722/226.

67. "Peterson to Mrs. Albers," 22 Jan. 1958, M1722/221. The Alberta party's attitudes are most clearly revealed in some of the correspondence concerning the role of unions in the New Party in M1722, files 8, 173, 233, 285.

68. The following assessment is based on information contained in the specific files dealing with each constituency and with provincial organization in general (M1722, files 165 to 230), scattered reports from such party organizers as Irvine, Magnus Eliason, and Robert Wright, and some of the correspondence between the Alberta CCF and both the Saskatchewan CCF and the national party.

69. For instance, the party tried to interest the Saskatchewan CCF in 1953 in a joint effort in some of the border constituencies and stated its preference was to work in Alexandra, Wainwright, and Acadia Coronation. "Peterson to Russ Brown, Saskatchewan CCF Provincial Secretary," 28 Oct. 1953, M1722/226.

70. Personal Interview with Nick Dushenski, Willingdon, 6 Feb. 1988. The provincial CCF seems basically to have acquiesced to the local decision. "Peterson to Lorne Ingle, National Secretary, CCF" 25 May 1953, M1722/6.

71. For some of Hlynka's views see "Outlawing Communism, a radio broadcast over Station CJCA, 28 March 1948, by Anthony Hlynka, M.P.for Vegreville," M695/476.

72. "Peterson to Ingle," 25 May 1953, M1722/6; "Peterson to Ingle," 27 Feb. 1953, M1722/6. For other expressions of this view see M1722/166.

73. "Peterson to Ingle," 7 July 1955, M1722/46; Dushenski interview.

74. Dushenski suggests the fact that Tomyn had lived in Edmonton since about 1940, together with a general feeling that Manning was anti-Ukrainian and that the constituency had been shortchanged in terms of public works, and particularly highways contributed to his victory. Dushenski interview.

75. "Peterson to Ingle," 7 July 1956, M1722/46.

76. "January 30," 1957, M1722/7.

77. "Peterson to Lar Peterson," 6 June 1955, M1722/170. It was perhaps symptomatic of the CCF's disinterest in the region that Peterson habitually misspelled Ruzycki's name and Ukrainian in her correspondence. See M1722/7 and M1722/226.

78. Dushenski interview.

79. On the Ukrainian lobby see 69.289/1602.

80. "Manning to Ponich," 4 June 1948, 69.289/1602.

81. See the Harry Shavchook letters from 1952 in 69.289/1600. Shavchook was the secretary of a group claiming to represent northeastern Alberta, but the group's delegates were representatives of the Ukrainian community from the northeast of the province as well as Calgary and Lethbridge, and from the Greek Catholic and Greek Orthodox churches.

82. "Manning to Shavchook," 5 Apr. 1952, 69.289/1600.

83. "W.E. Grekul to Manning," 22 June 1955, 69.289/1602.

84. See 69.289/2176 for a translated editorial from the Ukrainian paper Canadian Farmer and the Shavchook letters, 69.289/1600.

85. "Shavchook to Manning," 17 Apr. 1952, 69.289/1600.

86. In 1959, Manning was again approached, though without success, on the basis that the abilities of new Social Credit MLA Nick Melnyk, who was elected in Willingdon when Dushenski did not seek a third term, qualified him for cabinet. "Andrew J. Andriuk (Andrew), President, Willingdon Social Credit Association, to Manning," 31 Aug. 1959, 69.289/1999.

87. "Peterson to Eliason," 23 Feb. 1955, M1722/216.

88. "CCF Provincial Board Meeting," 5 Dec. 1954, M1722/119;"Peterson to Ingle," 5 Jan. 1955, M1722/46.

89. "Alberta CCF Provincial Board Report," 10 Dec. 1955, M1722/119.

90. "Peterson to Bessie Caldwell," 23 Feb. 1955, M1722/185.

91. "Peterson to Ingle," 18 May 1955, M1722/46.

92. "Peterson to Ingle," 7 July 1955, M1722/46. For the Alberta party's complaints about its financial woes see Peterson's letters to national secretary Lorne Ingle in various files including M1722/46; for the provincial party's financial position see M1722/119.

93. According to Dushenski, Rop was very bitter following his election defeat and felt that he had been let down "by his own people." Dushenski interview.

94. "Minutes of the Finance and Budget Committee," 20 May 1955, M1722/233.

95. "Provincial Board & Conference," Alberta CCF, 10 Dec. 1955, M1722/119.

96. The by-election results were J.A. Smith (S.C.) 8536, DR. F.M. Smith (Lib.) 8194, Bill Irvine (CCF) 3772. Edmonton Journal, 21 June 1955.

97. The Manning government, rather than Solon Low and the national party, ran the campaign and blanketted the constituency with cabinet ministers to ensure victory. "Battle River-Camrose by-election Campaign," 69.289/1841.

98. "Alberta CCF Provincial Board Report," 10 Dec. 1955, M1722/119.

99. Social Credit believed its political enemy was to the left, but it had not feared the CCF for some time. "Manning to John G. Banks," 4 July 1952, 69.289/1842.

100. "Minutes of Nominating Convention of the Alberta Liberal Association..." 24, 25 June 1947, M1724/119.

101. Meir Serfaty's "Harper Prowse and the Alberta Liberals," contains several minor factual errors. Serfaty's analysis of the dispute between Prudham and Prowse is weak and underestimates the importance of the federal Liberals to the Alberta party and the magnitude of Prowse's accomplishments given the limits of the Alberta organization. Alberta History, 29:1(Winter, 1981), 1-9. David Byron gives Prowse considerable credit for reinvigorating the role of the Leader of the Opposition in Alberta politics. "The Recognition of Leaders of the Opposition of Alberta, 1905-1983," Prairie Forum, 9:1(Spring, 1984), 45-60.

102. For one example of Prowse's willingness to hedge on the truth see "Prowse to H.E. Kidd," 15 Aug. 1951, M1724/39.

103. "Organization ... A Treatise on How to Win Elections," M1724/81. Roebuck's Treatise was published by the national party.

104. "Minutes of the General Council Meeting of the Alberta Liberal Association," 7 April 1948, M1724/119; "Prowse to D.J. Keen," 8 Jan.

1948," M1724/75A.

105. For Prowse's reaction see "J. Harper Prowse to Wes," 20 June 1950, M1166/6, Senator J. W. Stambaugh Papers, Glenbow-Alberta Institute. Wes Stambaugh was Prowse's political mentor.

106. The description was Prowse's own -- he admitted the problem and tried to correct it. "Prowse to Wes," 20 June 1950, M1166/6.

107. "Minutes of the General Council of the Alberta Liberal Association," 7 April 1948, M1724/119; "Address by J. Harper Prowse ..." 2 Feb. 1949, M1724/125. Also see Serfaty, "Harper Prowse."

108. "Advisory Council, Alberta Liberal Association," 28 March 1951, M1724/119.

109. "Minutes of the Convention of the Alberta Liberal Association," 2,3 Feb. 1949, M1724/119.

110. "Minutes of the General Council Meeting of the Alberta Liberal Association, 7 April 1948, M1724/119; "Prowse to D.J. Keen," 8 Jan. 1948, M1724/75A; "J.P. Connors, Provincial Organizer, to Macko," 23 Feb. 1954, M1724/115; "Prowse to C.J. Schecter," 19 March 1954, M1724/115. For the ALA's problems raising money see M1724/109.

111. See the Senator W.J. Stambaugh Papers (M1166); Serfaty, "Harper Prowse," 6.

112. For one example of the role Prowse was allowed to play see "Prowse to Wes," 20 Oct. 1949, M1166/6. For other examples see M1166, files 6 and 9, and M1724, files 36, 50, and 56.

113. "Stambaugh to Pat Brewster, Banff," 21 July 1950, M1724/36; "Brewster to Stambaugh," 14 July 1950, M1724/36.

114. "H.J. Macdonald to H.E. Kidd," 19 Feb. 1954, M1724/56.

115. "J.W. Stambaugh telegraph to Alberta Liberal Association," 25 Oct. 1949, M1166/6; "H.E. Kidd to Helen Grodelund," 24 Feb. 1953, M1724/56; "H.E. Kidd to Helen Grodelund," 23 March 1953, M1724/56; "H.E. Kidd to Helen Grodelund," 11 Dec. 1952, M1724/56; "J.P. Connors to Angus Hellman," 26 Jan. 1953, M1724/47. Kidd and Grodelund were secretaries of the federal and provincial parties, respectively.

116. "Minutes of Executive Meeting," ALA, 22 Aug. 1954, M1724/139.

117. "Prudham to Prowse," 9 March 1954, M1724/181A.

118. See M1724/181A.

119. "Constitution, Alberta Liberal Association As Amended in Convention," 13,14 Nov. 1952, M1724/109.

120. "Report of Executive Secretary Helen Grodelund to Convention, Alberta Liberal Association," 9 Nov. 1954, M1724/121.

121. Serfaty, "Harper Prowse," 6.

122. "Stambaugh to Prowse," 24 Feb. 1950, M1166/6.

123. "Stambaugh to Harper," 23 March 1950, M1166/6; "Stambaugh to H. J. Macdonald," 22 March 1950, M1166/5; "H.E. Kidd to Stambaugh, cc Prowse," 25 May 1953, M1724/56; "Prowse to H.E. Kidd," 1 June 1953, M1724/56.

124. "Minutes of Executive Meeting," ALA, 15 Jan. 1955, M1724/119.

125. For some of Prowse's beliefs see "Prowse to D.J. Kean," 8 Jan. 1948, M1724/75A; "Address by J. Harper Prowse," 2 Feb. 1949, M1724/425.

126. "Prowse to H.E. Kidd," 1 June 1953, M1724/56.

127. "Prowse to D.E.C. Anderson," 19 March 1952, M1724/117.

128. "J.A. Maurice, Director ASCL Peace River Division to G.L. MacLachlan, Chairman ASCL Board," 3 Dec. 1938, 69.289/937A.

129. "Low to Taylor," 15 Nov. 1952, M695/496; "Low to McLaughlin," 26 Jan. 1953, M695/287.

130. "Taylor to J.H. Johnston, Chief Maintenance Engineer," 21 Oct. 1954, M695/496.

131. "Prowse to Wes [Stambaugh]," 14 May 1951, M1166/6.

132. "Prowse to Bernard M. Isman," 19 March 1952, M1724/117.

133. "Prowse to H.E. Kidd," 1 June 1953, M1724.

134. "Prowse to Prudham," 4 June 1953, M1724/181A.

135. "Prowse to H.E. Kidd," 1 June 1953, M1724/56; "Prowse to Prudham," 4 June 1953, M1724/181A; "Road Map to Progress," a speech delivered by the Hon. George Prudham to the ALA convention, 9 Nov. 1954, M1724/181A.

136. "Minutes of Executive Meeting," ALA, 22 Aug. 1954, M1724/139.

137. "Report to Key Workers," J. Harper Prowse, 2 Oct. 1953, M1724/115; "Personal and Confidential," n.d., M1724/115.

138. "Minutes of a Meeting of Prominent Edmonton Liberals," 22 June, 1954, M1724/139; "Minutes of Executive Meeting," ALA, 22 Aug. 1954, M1724/139.

139. "H.J. Macdonald to Kidd," 19 Feb. 1954, M1724/56.

140. Serfaty, "Harper Prowse," 6.

141. "Minutes of Executive Meeting," ALA, 26 Sept. 1954, M1724/119.

142. Edmonton Journal, 9 May 1955.

143. Reginald Whitaker suggests Prudham was the "weakest link" in the federal cabinet. The Government Party: Organizing and Financing the Liberal Party of Canada, 1930-58, (Toronto: University of Toronto Press, 1977), 182. Stambaugh also regarded Prudham as very naive when he first went to Ottawa. "Stambaugh to Harper," 10 Dec. 1949, M1166/6.

144. See M1724/86.

145. "Alberta Social Credit League Budget Summary," n.d., 69.289/2177. From internal evidence, the budget was for the 1955 election.

146. "R Thomson, Calgary Regional Director to John Haar, Federal Liberal Coordinator," 28 May 1955, M1724/38.

147. "Low to Gilliland," 16 Feb. 1956, M695/174.

148. "Gilliland to Low," 20 May 1955, M695/174.

149. "Bob Jorgenson, President ASCL, to Low," 15 March 1950, M695/249; "Prowse to Kidd," 1 June 1953, M1724/56.

150. "No. 12, 'These Are The Facts', Week of March 28, 1955," M100.

151. "Television Program, Honourable E.C. Manning, May 30th, 1955," M100; "No. 19, 'These Are The Facts', Honorable E.C. Manning, Week of May 16, 1955," M100.

152. Edmonton Journal, 18 June 1955.

153. "Special Broadcast," 17 May 1955, M100.

154. "The Facts About Treasury Branch loans, a personal message to the people of Alberta, from Premier Ernest C. Manning," n.d., M695/485.

155. "The Facts About Treasury Branch Loans, a personal message to the people of Alberta from Premier Ernest C. Manning," n.d., M695/485. Prowse had previously tried to win federal Liberal support to counter Manning's broadcasts with his own radio program, to be named 'The Road Ahead' after a column Prowse had once written for the Edmonton Bulletin. See M1724/115.

156. "A Personal Message," n.d., M695/485.

157. "J. Harper Prowse, Opening Campaign Broadcast," 18 May 1955, M1724/123.

158. See M1724/86C.

159. Calgary Herald, 18 May 1955.

160. Edmonton Journal, 26 May 1955, 13 June 1955.

161. "Good Evening Friends," a broadcast by J. Harper Prowse, 6 June 1955, M1724/125.

162. "Broadcast No. 1, J. Harper Prowse, Morals vs. Technicalities," n.d., M1724/127.

163. "Broadcast, Rev. Edgar J. Bailey, Liberal," n.d., M1724/87.

164. Calgary Herald, 23 June, 28 June 1955.

165. Calgary Herald, 28 June 1955.

166. Edmonton Journal, 28 June 1955, 24 June 1955.

167. See the Edmonton Journal, 25 June 1955.

168. "Olive to Manning,6 May 1955, 69.289/1772B.

169. M695/485.

170. "Television Program," 30 May 1955, M100.

171. Edmonton Journal, 8 June 1955.

172. "Gilliland to Low," 15 May 1955, M695/174.

173. See 69.289/1664.

174. Edmonton Journal, 9 June 1955.

175. "J. Harper Prowse, South Edmonton Meeting," 14 June 1955, M1724/125.

176. "Norman A. Willmore to Social Credit Candidates," 9 June 1955, 69.289/1844.

177. Edmonton Journal, 13 June 1955.

178. Calgary Herald, 21 June 1955.

179. Edmonton Journal, 16 June 1955, 17 June 1955.

180. Edmonton Journal, 22 June 1955.

181. Edmonton Journal, 27 June 1955.

182. Edmonton Journal, 24, 25 June 1955.

183. "C.B.C. - 15 Minutes, J. Harper Prowse," 23 June 1955, M1724/125.

184. "The People of Alberta Want to Know!" 69.289/1844. The ad ran in the Journal and Herald.

185. "No. 23, 'These Are The Facts', Honorable E.C. Manning, Week of June 13th, 1955," M100.

186. "C.B.C. - 15 Minutes, J. Harper Prowse," 23 June 1955, M1724/125.

187. Edmonton Journal, 21 June 1955.

188. "Prowse to Kidd," 1 June 1953, M1724/56.

189. For one example see "Minutes of the General Council Meeting of the Alberta Liberal Association," 7 Apr. 1948, M1724/119.

190. "Stambaugh to Fogo," 28 June 1949, M1724/56. J. Gordon Fogo had been the National Liberal Federation president since 1943.

191. "A Personal Message," n.d. M695/485.

192. At any rate, that was Bill Irvine's understanding. "Bill Irvine to J.E. Maddock," 31 May 1955, M1722/166. Dushenski recalled no official agreement about second choices and suggested that form of cooperation was more apt to be initiated at the local level. Dushenski interview.

193. "Prowse to Bryce Stringham," 7 June 1955, M1724/ 91 A. Stringham was an independent candidate in Bow Valley-Empress. The same letter was sent to the other independent and coalition candidates provided there was no Liberal candidate in the constituency.

194. Edmonton Journal, 7 June 1955.

195. Hesketh, "Abolition of Preferential Voting," 130-34.

196. Edmonton Journal, 2 June 1955; Calgary Herald, 23, 25 June 1955.

197. "They Asked For It," 69.289/1844. Also see "No. 24, 'These Are The Facts', Week of June 20th, 1955," M100.

198. "Manning to D.B. Scott," 13 Dec. 1946, 69.289/1461.

199. Calgary Herald, 23 June 1955.

200. Edmonton Journal, 27 June 1955.

201. The complete untitled list may be found in 69.289/1676A.

202. Edmonton Journal, 27 June 1955.

203. Calgary Herald, 28 June 1955.

204. "A Personal Message to the People of Alberta by The Honourable Ernest C. Manning," 74.318.

205. "Mr. Speaker, Apr/55," 69.289/1671. Also see "Special Broadcast," 17 May 1955, M100.

206. "Blackmore to Lee," 20 Apr. 1955, M100.

207. For two examples see "Broadcast No. 16, Liberal, Mrs. A.G. Virtue," n.d., M1724/87D; "Broadcast No. 17, Liberal, Mrs. A.G. Virtue," n.d , M1724/87D. Virtue was President of the Liberal women's association.

208. "Low to Gilliland," 4 July 1955, M695/174.

Chapter 4

The Manning Government's Royal Commission Strategy

[i]

When Premier Manning authorized the Royal Commission investigation of the opposition's charges, he theoretically placed the Treasury Branch's problems and the DPW's contract-fixing at risk of discovery. Yet after Manning had repeatedly condemned the opposition, and particularly J. Harper Prowse, for making charges which were nothing but partisan and irresponsible slanders intended to destroy the public's confidence in their government in order to satisfy a personal lust for power, and after the election results reduced the Social Credit forces in the legislature to 37 MLAs and increased the opposition to 24 MLAs, Manning could not take any chances that the Royal Commission's findings would inflict serious damage on his government. In immediate political terms, a Commission report clearing the government was essential for Manning to recapture the initiative in establishing the political agenda for the province and to undermine Prowse's credibility. In the longer term, Manning's reputation for honesty and integrity could only be preserved if the Commission acquitted the government, and the entire Social Credit movement depended on Manning's reputation for its viability. Therefore, Manning had to make sure that the Commission would clear his government of all charges. A review of all the charges examined by the Commission is beyond the scope of this study, which will focus only on Prowse's Company A Company B charge.

J. Harper Prowse's suspicions about the Treasury Branch's O'Sullivan account had apparently first been aroused by the coincidence of O'Sullivan's increasing indebtedness to the Branch, which had been revealed by his search of publicly registered chattel mortgages at the time of the 1948 Public Accounts Committee meetings, and by O'Sullivan's dramatically increased earnings from government contracts, mainly involving highway construction, from $16,885 in the fiscal year ending 31 March 1947 to $597,745 in the fiscal year ending 31 March 1948.[1] Briefly stated, Prowse believed that O'Sullivan's DPW contracts had increased in response to his Treasury Branch debt, rather than the loans originating in response to contracts he already held. When Mannix took over from O'Sullivan, Prowse believed that the DPW extended the same favoratism to the Mannix interests in order both to assist them to pay out the loan obligation assumed from O'Sullivan and to save the Treasury Branch and the government from the embarassment of a large loss on one of its loans. In Prowse's view, Mannix's subsequent involvement in the Alberta Coal Company loans and his assumption of responsibility for the indebtedness to the Branch of the Sparling Davis interests extended and intensified the government's special relationship with Mannix. As will be shown in Chapter 5, Prowse did not completely understand the government's reasons for providing O'Sullivan and Mannix with contracts, however the government's immediate problem was that Prowse was right in most essentials.

There was only one way that the Royal Commission would rule that Prowse's Company A Company B charge was unfounded and that was if the government deliberately deceived the Commission into thinking it was unfounded. When the government's exhibits to the Commission and the testimony of the government witnesses are examined, it appears that the government developed a strategy comprised of two lines of defence to counter Prowse's charge. For its first line of defence, the government very carefully drafted the Commission's terms of reference to channel the inquiry along safe paths and it chose Commissioners who were not apt to stray off those paths.[2] The intent behind the government's drafting of the terms of reference was to dismember Prowse's argument by blocking the discovery of O'Sullivan's loans problems, obscuring various contract irregularities, and focussing the Commission's investigation on only two Mannix companies. Although Justice H.J. Macdonald, the government's choice for Commission chair, later became ill, he presided during the entire testimony concerning highways contracts and he was generally rigid in his interpretation of the Commission's terms of reference.[3] The other Commissioners, George Harrison Villett, Maurice Brown, and J.H. Galbraith, had the power to summon witnesses and require evidence to be given but they never seem to have played an active role in the proceedings.

For its second line of defence, the government bombarded the Commission with facts and figures, technical details about road construction, and meticulously written explanations which anticipated as much as possible any awkward questions which might be asked. The idea behind the written explanations was to leave nothing to chance and government witnesses commonly read large segments of their testimony from prepared transcripts which, judging from one surviving example, included marginal notes warning the witnesses when they needed to be careful about a specific facet of their testimony.[4] Copies of the transcripts were then filed as exhibits.

Only when the evidence which was originally prepared for the Commission is compared to the exhibits and testimony actually provided to the Commission does it become clear that the government had a third line of defence. Carefully worded terms of reference, commissioners who proved none too inquisitive, and prepared testimony were not enough to prevent the Commission from discovering the Branch's loans problems and concluding that the government had deliberately shown preference in awarding highways contracts to o'Sullivan and Mannix to enable the Branch to recover its loans. The Manning government's third line of defence was to withhold all information about certain highways contracts, provide incomplete and inaccurate information about other contracts, carefully edit and correlate the evidence and testimony of the government's witnesses to avoid inconsistencies, and lie to the Commission. The overall task of planning the Commission's terms of reference and coordinating the evidence in the government's exhibits with the testimony of its witnesses was apparently given to Sam Helman, a Calgary lawyer who served as Crown attorney during the Commission proceedings.[5] Although Helman was in charge, it would be naive to think that Manning was not fully cognizant of Helman's work or that he did not know the Commission was being deceived. Indeed, when the government officials lied to the Commission, they were not just protecting the Treasury Branch or the Main Highways Branch or their own reputations, they were also protecting the Premier. The limitations which the government's strategy placed on the Commission's investigation will be examined in the balance of this chapter, while the impact of the withheld evidence will be assessed when the O'Sullivan Branch account is reviewed in Chapter 5.

Although the government tried as much as possible to determine what evidence would be presented to the Commission, there was one kind of evidence which it could not control and which still made the Commission a risky proposition. It had to worry that the opposition might present its own evidence and witnesses. The most likely source from which the opposition could gather such evidence was the province's contractors. They had begun complaining publicly during the election about the DPW's tendering procedures, and this had shown the government that their silence could not be guaranteed during the Commission proceedings. Of course, the outcome of the election had decreased the likelihood that any contractor would speak out against the government if he depended for much of his work on government contracts. Furthermore, negotiated contracts and negotiated extensions to existing contracts, both of which circumvented the tender process and upset contractors, had all but been eliminated prior to 1955. Following the election, the government addressed two other complaints concerning its contract procedures.

Since at least 1950, the province's contractors had been lobbying to have tenders opened in public,[6] rather than by a committee of government personnel as was the custom. The contractors suspected -- correctly as it turned out -- that the procedure was being rigged to benefit particular contractors. When contractors submitted tenders, it was in the form of bid sheets which quoted unit prices for the various phases of work involved in the overall contract. Opening bids in public would prevent the possibility that the bid sheets for a favored contractor were completed after those of his competitors had been opened or that one contractor submitted alternate bids quoting different unit prices. Traditionally, the government had argued that prices would increase if the bids were made public and that it was impractical to open bids in public since considerable computation and time was required before the committee could determine the total bid from the unit prices. However, during the election, Manning signalled contractors that he was willing to compromise. Although the government later testified to the Royal Commission that the committee which opened bids included a representative of the audit department,[7] Manning had actually only agreed to that change in May of 1955.[8] In the latter stages of the 1955 campaign, still in the hope of quietening the contractors'continued public criticisms as election day approached, Manning finally agreed to allow the committee to open bids in public[9] which, after August 1955, became standard.

A second way in which the government could assist particular contractors was to allow °overbids' which, quite literally, meant that for various reasons the final cost of the completed work exceeded the bid price. Of course, some deviation between the bid price and the final cost was almost inevitable since bids were based on unit prices for estimated quantities of materials and haul distances. The discovery, during contruction, for instance, that extra clay and gravel were required to complete the gravel base course of a road due to shoulder displacement, could alter the final cost of the road dramatically. The problem was that, once a project began, contract requirements could just as easily be altered intentionally to benefit a particular contractor. For example, the Highways Department could decide in consultation with the contractor that extra materials were required if a quality road was to be built, or that new haul rates had to be negotiated because other gravel pits had to be used, or that extra work, which had not been specified when the contract was put to tender, was now deemed necessary or desirable. If a contractor had prior knowledge that the total work involved to complete a contract would expand, he could afford to quote lower unit prices when he submitted his bid. Later, when his overhead costs were spread over a significantly larger volume of work, a marginally profitable contract could turn into a real money-maker. No contractors benefitted from overbids as much as O'Sullivan and Mannix, yet all that was necessary when an overbid of more than 10% occurred was that a detailed explanation be sent to the audit department. Then, just before the Commission began, the government moved to plug this loophole and began requiring that an order-in-council be passed whenever a contract increased by more than 10%.

While the government was willing to placate the province's contractors, it no doubt realized that few individual contractors would have any inside knowledge of how it bypassed the tender process when it allocated contracts. It could not eliminate the possibility that one or two contractors, irate at losing contracts they felt they deserved, might testify for the opposition during the Commission proceedings. But their testimony could not do much harm either since it would probably be based on nothing more than the rumors which abounded at that time anyway. The real danger confronting the government was that several contractors might testify against it. The reforms it instituted, combined with the fact that those same contractors would face four more years of trying to win contracts from a Social Credit government, sharply reduced that likelihood.

[ii]

Having taken what precautions it could to limit any adverse testimony from the province's contractors, the government turned to the drafting of the terms of reference which would govern the Commission's investigation of the Company A Company B charge. The intent of the government's strategy was that the terms of reference would limit the time span for which highways contracts would be considered germane to the investigation so as to hide some of the more blatant favoratism which had been shown to O'Sullivan in the 1940s, limit the number of Mannix companies which would be considered responsible for Treasury Branch loans, and block any inquiry into the affairs of the Treasury Branch. No investigation of the Branch's problems with its O'Sullivan and Sparling loans could be allowed because that would establish a motive for the government to show preference in its highways contracts awards and destroy the government's credibility.

In keeping with pretense that the government was allowing a full and open investigation, the preamble to the terms of reference seemed to allow a wide latitiude for the conduct of the investigation. The preamble authorized the investigation of "certain charges, allegations and reports relating to the conduct of the business of government" which had been made in speeches, articles and editorials. However, the preamble did not specify which charges, allegations and reports fell within the Commission's authority to investigate nor did it specify when those charges had been made. (For a complete statement of the preamble and terms of reference, see Appendix 1.) Due to the lack of explicitness regarding the charges, the Commission ruled that the evidence it was empowered to require to be presented was restricted to the actual terms of reference.[10] In effect, as J.V.H. Milvain, the counsel hired by the Liberals to represent their interests during the Royal Commission, realized,[11] this meant that the Commission was not really investigating the opposition's charges against the government at all; it was investigating the government's version of those charges as recorded in the terms of reference. When it came to the specific charge regarding highway contract awards, the terms of reference authorized the Commission:

> to investigate and report upon the facts concerning the method of calling for tenders and awarding of highway construction contracts by the Department of Highways; and

> in particular to investigate and report upon whether in any instance any preference has been shown in the awarding of highway construction contracts to persons, firms or corporations by reason of their being indebted to a Provincial Treasury Branch, or to persons, firms or corporations by reason of the fact that they assumed responsibility for the liabilities of persons, firms or corporations indebted to a Provincial Treasury Branch.

Although at first glance the terms seemed innocuous enough, in fact they precisely delimited the parameters of the Commission's investigation. When the Commission hearings began, and Milvain asked to see complete information on all highways contracts from 1945 to 1955, Helman countered that the terms of reference specified the 'Department of Highways' which had not existed as a separate department until 1951. Prior to that time it had been a branch of the DPW. Helman stated that, in keeping with that interpretation of the terms of reference, he had prepared complete information on all main highway construction contracts for the years 1951 to 1955 inclusive, but it would take weeks to compile the extra information on all main highway contracts dating back to 1945. He was prepared, however to provide complete information on all main highways contracts to Branch debtors or those responsible for such debts from 1941 -- when the Branch began offering loans -- to 1955.[12] In a key ruling, the chair agreed with Helman's literal interpretation of the terms of reference.[13] Although it appeared to be only a minor defeat for Milvain, since all contracts related to Treasury Branch borrowings were to be provided in any case, Macdonald's ruling was a boon to the government.

The fact was that the government had not only to protect itself from the charge of collusion between the DPW and the Treasury Branch in the awarding of highway contracts; it had also to protect the reputation of these departments individually. Restricting access to pre-1951 contracts served two purposes then. First, it meant that the only information the Commission had about pre-1951 contracts concerned those contracts involving Treasury Branch clients. This prevented Milvain from drawing comparisons between contracts involving Branch clients and other contracts in this period and, more importantly, when the government decided to withhold information about a number of contracts involving Branch customers, it greatly reduced the possibility of contradictions and inconsistencies between exhibits. Second, the restriction was necessary because the government wanted to hide the fact that the DPW had quite often negotiated contracts in the postwar era rather than advertising them for tender, whether or not Treasury Branch clients were involved. The government was willing to admit that, with the conclusion of the war and in the confusion of trying to organize a dramatically increased and urgently required highway construction program when contractors were fewer in number and standards were lower, it had sometimes negotiated contracts in preference to the tender process.[14] However, it did not want to reveal how frequently it chose to negotiate contracts because that would seriously undermine its efforts to show that fairness was the rule in all contract awards, including those to O'Sullivan and Mannix. The fact was that for several years the DPW had exercised inappropriate control over which contracts were awarded to which contractors by the simple device of negotiating directly with individual contractors rather than putting the work out to general tender. (Table 1 provides gross figures for negotiated contracts.) If the Commission had been aware of this practice, it might have been more inquisitive about the charge that favoratism was shown to Treasury Branch clients. Even more damaging to the government's case, a complete list of contracts from the end of the war to 1955 would have shown that the DPW had basically stopped negotiating contracts by 1950, then it had begun again in 1951, primarily to the benefit of Mannix-O'Sullivan Paving Company Ltd. and Mannix Ltd. Since the Commission did not have a list of 1950 contracts, the government was able to create the impression that 1951 marked the end of the postwar adjustment period and, thus, that all the negotiated contracts the O'Sullivan and Mannix companies received were similarly part of that postwar adjustment.

Despite Helman's protestations about the extra time and effort which would be required to compile records of contracts dating back as far as 1945, the government had by then almost completed worksheets detailing all contract awards since 1941. The worksheets, from which the exhibits submitted to the Commission were subsequently typed, were never destroyed and they provide reliable guides to highway contract awards. It is worth noting that most of the negotiated contracts listed on the worksheets for the postwar years were later crossed out.[15] There is reason to think that to hide the DPW's practice of negotiating contracts, the government was actually contemplating withholding from the Commission information about all the negotiated contracts which were crossed out on those worksheets. For example, when the government apparently thought it might be required to show the Commission its 1949 and 1950 highway contracts, typed versions in

Table 1

Negotiated Main Highway Construction Contracts, 1947 - 1954

	1947	1948	1949	1950	1951	1952	1953	1954
Number of negotiated contracts	14	9	8	2	10	0	1	0
Approx. value ($)	573,386	847,243	281,110	55,908	1,683,966	0	1,027,820	0

1947 and 1948 total values are based on a combination of estimated values and final costs as available. Other figures represent actual costs.

Source: 83.197 Provincial Archives of Alberta.

exhibit form were prepared, but all seven negotiated contracts which had been crossed out on the worksheets were omitted from the typed versions. Although, thanks to Macdonald's ruling, the 1949 and 1950 contracts were not required to be shown, each of the four negotiated contracts on the 1951 to 1955 worksheets, which was similarly crossed out, was withheld from the Commission.

Not only did the terms of reference limit the Commission's access to pre-1951 contracts, they successfully prevented Milvain from linking together the various Mannix companies and arguing that, as a group, they had received preferential treatment when highways contracts were awarded. Certainly Prowse had charged during the election that O'Sullivan and then Mannix Ltd. had been favoured,[16] but the terms of reference specified "persons, firms or corporations" in debt to the Treasury Branch or responsible for such debts. Helman pointed out that Fred Mannix & Company Ltd. and Mannix-O'Sullivan Paving Co. Ltd. were responsible for O'Sullivan's Branch loans and were therefore included in the exhibit detailing firms with highways contracts and Treasury Branch involvement, but Mannix Ltd. had no such obligations, had never dealt with the Branch and was therefore excluded.[17] Once more, Helman's literal interpretation of the Commission's terms of reference was accepted as accurate. Separating Mannix Ltd. from the other Mannix interests had a devastating effect on any chance Milvain had of demonstrating favoritism in highway contract awards.

Certainly, if the terms of reference had been broad enough to allow Milvain to examine the corporate connections of Mannix's companies and to establish their other links with the Treasury Branch, Mannix Ltd. would have been included and Milvain probably would have been able to formulate a stronger argument showing collusion. Although Fred Mannix & Co. Ltd., Mannix-O'Sullivan Paving Co. Ltd., and Mannix Ltd. were separate companies, their corporate connections could easily have been established. Mannix-O'Sullivan Paving Co. Ltd. had been incorporated on 2 June 1949 in the rental/purchase agreement by which Fred Mannix & Company Ltd. guaranteed O'Sullivan's Branch loans. According to a 1954 statement of holdings however, it was Mannix Ltd. which actually owned 296 of Mannix-O'Sullivan's 301 common shares and 3500 of the 5000 preferential shares which had been established on 19 May 1952 to increase the company's capital by $500,000.[18] Mannix Ltd. itself had been incorporated on 28 February 1951 and had soon replaced Fred Mannix & Company Ltd. in bidding for highway contracts from the Alberta government. On 31 May 1951, a debenture was given by Mannix Ltd. to Fred Mannix & Company Ltd. to secure the sum of $2,750,000,[19] so a debtor/creditor relationship existed between Mannix Ltd. and Fred Mannix & Company. In fact, the Public Accounts of the province do not show that the various Mannix interests were treated separately. According to those records, all payments to Mannix -- including those to Mannix Ltd. which first undertook highways contract work in 1951 -- were made in the name of °Mannix & Co. Ltd., Fred' until 1953 when they were made to °Mannix (Fred) & Co. Ltd.'. Not until 1954 does the name of °Mannix Co. Ltd.' appear and then in 1955, °Mannix Ltd.'.[20]

The Mannix interests' direct and indirect links to the Treasury Branch were not limited to the O'Sullivan loan but the terms of reference prevented Milvain from inquiring into other connections to show the true extent of the Branch's dependence on the profitability of the Mannix interests. For instance, the Branch loaned $850,000 on 28 March 1951 to the Alberta Coal Company, of which Fred Mannix Jr. was a director. Out of the total loan, $600,000 was to repay a loan from Fred Mannix & Co. Ltd. to Alberta Coal Company.[21] In addition to Mannix's connection to the Alberta Coal Company loan, Mannix Ltd. owned 51% of the shares of both Hupp Ltd. and Sparling Davis Ltd. as well as having interests in Sparling Tank Ltd. -- the three companies which were formed in 1953 when Mannix assumed responsibility for the Sparling interests' Treasury Branch loans which amounted to more than $3.5 million. The remaining 49% of these companies' shares were registered in the name of the Provincial Treasurer. In fact, under the Commission's terms of reference, Mannix Ltd. appeared to qualify as a guarantor of the Branch's loans to the Sparling interests, in which case Mannix Ltd.'s highways contracts should have been included among those of contractors with Treasury Branch involvement, but there is no record that Milvain made this argument directly. Instead he attempted to inquire into Mannix's connection with Sparling by requesting that certain information about Mannix's Sparling companies be supplied to the Commission from the Registrar of Companies.

During the election, J. Harper Prowse's allegation that some of Mannix's highways contracts had been rewards for the responsibility he took for Sparling's large Treasury Branch loans had been among the most prominent of the opposition's charges. Milvain's problem was that this charge was not even mentioned in the Commission's terms of reference.

Therefore, Commission counsel Mahaffy argued that since neither Hupp Ltd. nor Sparling Davis Ltd. had highways contracts and Mannix Ltd. was not, itself, a Treasury Branch debtor, Milvain was requesting information which was not germane.[22] Macdonald, the Commission chair, agreed with Mahaffy that an inquiry into Mannix's connection with Sparling was beyond the scope of the inquiry.[23] Mahaffy probably did not know it but he was wrong about Mannix Ltd. According to a Memo from Olive to the deputy provincial treasurer, Mannix Ltd. was by September 1955 a borrowing customer of the Branch.[24] When Mannix Ltd. first became a Branch borrowing customer is not known, but there is no question that at the very least some of Mannix Ltd.'s 1955 contracts belonged on the exhibits of awards to contractors with Branch loans.

In addition to restricting the time period for which highways contracts would be investigated and narrowing the Commission's field of inquiry in relation to the connections between the Treasury Branch and the various Mannix interests, the terms of reference also prevented undue disclosure of the facts about Treasury Branch loans. Even before Macdonald ruled that Milvain's inquiry into Mannix's connection with Sparling was outside the Commission's terms of reference, he had ruled against Milvain's request that the Commission be provided with a record of all highways contracts which were assigned to the Treasury Branch.[25] Milvain's request clearly stretched the terms of reference which authorized the Commission to investigate the question of preference when contracts were awarded, not to undertake a wholesale survey of relations between the Treasury Branch and the Highways Branch. Nevertheless, Macdonald's ruling effectively prevented Milvain from discovering any connection between Branch debts and contract awards and assignments which might reflect poorly on the Branch.

The government's determination not to allow the Branch's repayment problems on its loans to O'Sullivan and the Sparling interests to be investigated was served by the terms of reference covering the Commission's investigation of a separate issue, namely the "general procedure" by which the Treasury Branch made loans and, in particular, loans to MLAs (see Appendix 1). The terms of reference for this issue stated: "in the public interest and to protect the interest of customers of the Treasury Branches no investigation shall be made into loans made to or other dealings with the Treasury Branches by any other persons." The prohibition, which was supposed to protect Treasury Branch clients against an unwarranted invasion of their privacy, was the same device which the government had used to keep the Legislature's Public Accounts Committee from investigating the Branch's loans problems in 1943 and 1948. Now, it was used to limit the Commission's investigation. Thus, not long after Milvain began questioning Treasury Branch Superintendent Olive about Branch clients with loans and highways contracts, Helman objected that Milvain was asking about specific accounts. Although Commission Chairman Macdonald ruled that "the nature and amount of indebtedness to the Treasury Branch by a contractor" were material, Superintendent Olive was not required to breach the privacy of the Branch's clients other than by giving the amount of the loans and receivables, and the type and value of any security held by the Branch at the end of each month in which the client was awarded a highway construction contract.[26] That information was interesting and revealed the general problem O'Sullivan had experienced in repaying his loan, (see Table 2 regarding the O'Sullivan loans) but it could be used to little real purpose when the circumstances of each advance, the disposition of the loans between the months when contracts were won, and the portion of the receivables assigned for repayment were unknown.[27] The Branch's problems continued to be hidden from public view during the Royal Commission hearings -- the Manning government had no choice if it wished to remain in power.

Although the terms of reference narrowed the range of evidence dealing with highway contracts which was presented to the Commission, the government still had to reveal several potentially embarassing items which could be used by the opposition to create an impression of guilt. The government's second line of defence was designed to defuse any evidence which suggested government impropriety while making it seem like it was providing all the evidence which could possibly be wished. Part of the strategy was simply to overwhelm Milvain, the Liberal counsel, with exhibits and paperwork. To this end, Main Highways Branch employees logged 288 hours of overtime in preparing exhibits for the Commission.[28] Prowse had earlier requested that the government appoint counsel to represent opposition interests at the inquiry but his request had been refused. Milvain's fees combined with other costs related to the inquiry constituted a large expenditure for the Liberal party[29] and, although Prowse assisted Milvain, the party could not offer any further help.

The government bombarded Milvain and the Commission with well over

Table 2

O´Sullivan Construction Treasury Branch Loans*

Date	End of Month Loan Balance ($)	End of Month Receivables ($)
Feb. 1947	121,749	$ 70,000
March 1947	178,640	67,000
June 1947	242,429	126,996
July 1947	221,687	125,874
Aug. 1947	269,458	280,777
Sept. 1947	330,004	294,058
Nov. 1947	207,186	309,440
Dec. 1947	172,500	181,039
July 1948	229,086	281,491
Oct. 1948	559,964	829,666
Nov. 1948	452,479	602,403
Dec. 1948	362,051	370,197
Apr. 1949	308,017	221,686
May 1949	318,079	234,967
Sept. 1949	539,446	

*All statistics are based on Olive´s testimony before the Royal Commission. Olive had reasonto obscure the actual extent of O´Sullivan´s loan so the figures should be used with caution.

Source: "Transcript," Royal Commission

one hundred separate exhibits on this one issue consisting of standard forms used for tendering contracts, technical monographs related to highway construction, tables detailing contract awards, departmental memoes, and detailed explanations regarding, first, all contracts involving contractors with loans from the Treasury Branch or responsible for such loans and, second, each and every contract which showed a deviation from standard operating procedures. The government did not usually correlate the information on its exhibits and some of the tables of highways contracts, in particular, would have required days to study thoroughly and to compare with the information on the other exhibits. In addition, for particularly contentious contracts, entire departmental files were produced. The Commission only spent 16 days investigating the issue of preference regarding highway construction awards to contractors involved wih the Branch so Milvain could only focus on a few contracts.

All the government's exhibits were backed up by the authoritative testimony of such responsible government personnel as D.B. MacMillan who was the Minister of Public Works when the Highways Branch was part of that department, MacMillan's Deputy Minister G.H.L. Monkman, A. Frame, who was the Deputy Minister of Highways after that department's establishment in 1951, L.H. McManus and J.H. Johnston who were the heads of the Bridge and Maintenance Branches, A.M. Paull who was the Chief Highways Engineer and head of the Highway Construction Branch, and, of course, Superintendent A.K. Olive of the Treasury Branch. Monkman, for instance, testified that he did not know of any case in which preference had been shown to any contractor regardless of whether or not that contractor was a Treasury Branch client.[30] Olive denied that the Branch had ever asked the Highways Branch to show preference to any of its clients except in one case when it sought special consideration for a contract deposit belonging to O'Sullivan Construction.[31] That case, involving contracts 459/47 and 504/48, will be discussed later. According to Olive, the Branch would not even have knowledge of any contract being offered until after a customer had been awarded the contract and sought a loan on that basis.[32] MacMillan stated that neither he nor his department had ever been approached by anyone about preferential treatment for Branch customers and denied any knowledge that O'Sullivan was even a Branch customer.[33]

When these witnesses gave their testimony, they attempted to cloak the mundane and frequently political decisions which the department had made with an aura of scientific expertise. They relied on technical terminology which they would then 'translate' so that the layman -- the Commissioners and counselors -- could understand. It was a particularly effective strategy when the government was trying to explain why contracts were negotiated or extended to include extra work rather than put to tender or why dramatic cost overruns sometimes occurred. They also tried to portray negotiated contracts and extensions, which bypassed the normal tender procedure and provided an opportunity for the Highways Branch to allocate work directly to a favored contractor, as instead offering an advantage and a savings to the department. According to these witnesses, negotiated contracts were sometimes necessary during the postwar adjustment period and often resulted in a savings to the taxpayer if they were arranged with contractors who were working nearby who could do the job for less. Extensions were offered in the late fall to take advantage of good weather, to avoid time delays, to take advantage of low unit prices in the original contract and, again, to save the taxpayer money. (For the abbreviated version of the government explanations which was included in the Report of the Royal Commission Report, see Appendix 2.) Overbids were more common during the postwar readjustment because so many rush jobs were required after the construction lull of the war years, and estimating procedures were less advanced then.[34] One by one, the witness's explanations made each deviation from the norm seem not only logical but almost inevitable. The witnesses were important figures in government circles, with major responsibilities and powers, and their prestige lent authority to their testimony. For the most part, they were also government administrators with technical expertise, rather than politicians, and they were interested in constructing cost efficient, high-quality roadways which would stand up to Alberta's harsh weather conditions. It did not matter who did the job so long as it was done right and at the least possible cost to the taxpayer -- or so they said.

Thanks to Sam Helman's careful coordination of the government's exhibits with the testimony of its witnesses, inconsistencies were kept to a minimum. There were no awkward references to contracts which the government withheld from the Commission's knowledge and, since the rehearsed testimony of the witnesses generally corroborated the myriad details in all the tables and explanatory memoes which were filed as exhibits, it did help to create an impression of honesty and openness.

When the province's newspapers, nevertheless, had the gall to suggest the government was not being entirely forthright in presenting the evidence, Sam Helman angrily declaimed:[35]

> The newspapers come out, particularly in Calgary, and suggest I am trying to conceal something. I am not trying to conceal anything. Anyone who saw what I produced to Mr. Milvain could not suggest that for a moment but what I am trying to do is keep the Commission within the four corners of its statutory obligation.

Despite Helman's dramatic assertion of the government's forthrightness, Milvain was sure the government was concealing information.

[iii]

Milvain was in an awkward position. He had basically been hired to undermine the credibility of the government, yet he must have known that the very fact that he -- the Liberal counsel -- was examining the government's evidence and cross-examining their witnesses helped to establish the credibility of the Commission process itself and would, if the Commission exonerated the government, in the long run probably end up buttressing the government's credibility.[36] He also knew Helman was practicing legerdemain; he just did not know what or how much was being hidden.

Unfortunately for Milvain, although Prowse had collected rumors and allegations against the government for years, he had no concrete evidence which could be used during the Royal Commission to establish guilt. As Prowse had told Prudham and the federal Liberal party when they had asked for dirt about the Manning government in 1953, he could supply plenty of circumstantial evidence but nothing which could be verified or which would stand up in a court of law.[37] In fairness, Prowse had probably been receiving some of his information from contractors who believed that O'Sullivan and Mannix were being favored by the Highways Branch when it awarded highways contracts.[38] During the Commission, Milvain was able to produce only one witness, whose testimony was based largely on hearsay, because most contractors were unwilling to testify;[39] they knew they would have to depend on the Social Credit government for contracts when the Commission ended.

Very soon after the Commission began, Milvain and Prowse came to the realization that the Commission's terms of reference combined with Macdonald's interpretation of those terms and the government's other tactics, constituted a formidable and probably insurmountable obstacle to substantiating any case against the government. Therefore, Milvain deliberately set out to stretch the terms of reference as much as possible and to make any headlines he could.[40] He enjoyed considerable success at both and also caused Helman, a good friend of his, several moments of discomfort when he discovered inconsistencies in the evidence.

Most of Milvain's successes came when he grilled Paull, Olive and Monkman about the Edmonton to Morinville highway which had been built by O'Sullivan Construction. The highway had been built under two separate contracts, 459/47 (a surfacing contract for the Edmonton to Legal highway) and 504/48 (a road-building contract for the Morinville to Clyde Corner highway). O'Sullivan won the first contract with a bid of $257,623.48 when the only other bid arrived after the competition had closed. 459/47 eventually paid $736,444.90 -- an overbid of $478,821.42. The second contract, 504/48, was negotiated for $707,904.82, but it eventually paid $664,589.24 -- an underbid of $43,315.58. The government explained the overbid to the Commission as arising for the most part because of decisions, which were made after the contract was originally awarded, that it was necessary to increase both the clay base (at a cost of $324,213.96) and the asphalt thickness for extra strength and that it was desirable to extend the road through Morinville. 504/48 was negotiated because other contractors with paving equipment were busy and negotiating the contract with O'Sullivan, whose equipment was nearby in any case, allowed the DPW to take advantage of the low unit prices on 459/47 and save the government money.[41] (For a complete record of the government's explanation, see Appendix 3.)

The government provided its file on each of these two controversial contracts but Milvain was sure that the files had been rifled since they included references to documents which were no longer there.[42] Indeed, Helman recognized that it was impossible to hide some of the irregularities in these two contracts and so he drew the Commission's attention to them. Between Helman's admissions and Milvain's allegations, it was shown that O'Sullivan started work on 459/47 before the contract was signed, that 504/48 was referred to throughout as an extension of 459/47 rather than as a separate negotiated contract, that work on 504/48 had also commenced before the contract was signed, that only two of the unit prices on 504/48 were actually the same as on 459/47, and that the Highways Branch had halved its normal performance bond requirement from O'Sullivan following the intercession of a representative of the Treasury Branch Loans Committee on O'Sullivan's behalf. The Committee representative had tried to persuade the DPW to grant a premature release of monies owing O'Sullivan on contract 459/47 before that contract was completed so that they could be applied to the bond on 504/48. The government witnesses and Helman countered that no monies had been paid until after the contract was signed and pointed out that a premature start on a contract was the contractor's responsibility, while the Treasury Branch's request had been referred to the auditor who had refused permission to release the 459/47 monies. Nevertheless, Milvain's astute questioning came uncomfortably close to the truth and to create a diversion Helman launched into a strongly worded attack on Milvain and Prowse for trying to pillory the Treasury Branch's borrowing customers.[43]

Milvain's greatest coup occurred when he did some fast arithmetic and figured out that the quantities of clay and gravel recorded in the haul records for 459/47 were sufficient to create clay and gravel courses two to three times the specified depth. It was apparently common knowledge at the time that the clay had come from land owned by Attorney General Lucien Maynard.[44] Milvain questioned whether the haul records were accurate, noted that the government engineer on the job who was responsible for the records had subsequently gone to work for

Mannix as his chief engineer, and challenged the government to take a cross-section of the road to verify that the clay and gravel were really there. Although the government witnesses defended the accuracy of the department's records by arguing that surface unevenness and shoulder displacement problems necessitated a greater volume of fill, no matter how technical their explanations of road-building difficulties, they could not hide the fact that, on this one issue, Milvain had tarnished their credibility.

As clever as Milvain's arguments were, they were also a prime example of his tactic of stretching the terms of reference to garner headlines in the province's newspapers. The terms of reference limited the inquiry to the question of whether the Department of Highways had shown preference in _awarding_ contracts to contractors with Treasury Branch involvement but Milvain was basically trying to establish that the taxpayers did not get there money's worth on 459/47 and that the DPW might even have assisted O'Sullivan, a Treasury Branch client, by falsifying its haul records. The insinuation regarding the government engineer who went to work for Mannix -- not O'Sullivan -- implied a connection Milvain could never have proved. If Milvain had stayed within the terms of reference he would have had to prove either that when O'Sullivan won contract 459/47 the bidding had somehow been rigged or that contract 504/48 had been negotiated with O'Sullivan rather than another contractor because of O'Sullivan's Treasury Branch debts and not, as the government claimed, because the other two contractors with paving equipment were busy with other contracts. Even though the potential profits of 459/47 had grown enormously thanks first to the overbid and then to the addition of negotiated contract 504/48, which together had transformed a $257,000 job into one which paid O'Sullivan a total of $1,400,000, all Milvain could do, based on the evidence, was allege that this showed government wrongdoing. He could not prove that O'Sullivan had been other than the fortunate victim of circumstance or that there had been any collusion between the DPW and the Treasury Branch. Helman was not about to let Milvain see that kind of evidence.

The government's Royal Commission strategy was a success. The terms of reference protected the Treasury Branch from any disclosure of its problems and helped the DPW hide its worst contract abuses. When the government was required to present evidence which would have shown that preference was given to Treasury Branch clients when highways contracts were awarded, it simply withheld the evidence. The entire deception was backed up by the testimony of several respected government witnesses. Milvain had caused Helman some uncomfortable moments and there was little else he could have done to discover the truth. The Manning government needed the Royal Commission to absolve it of any blame and that is exactly what its Commission strategy guaranteed.

Predictably, when the Commission released its Report, it completely cleared the government of the charge that preference had been shown to contractors who borrowed from or were responsible for the debts of others borrowing from the Treasury Branch. Although it ruled that the DPW had deviated from statutory requirements by allowing work to commence prematurely on contracts 459/47 and 504/48, together with contract 438/47 -- a bridge-building contract on which O'Sullivan had again undertaken some limited work before the contract was signed -- it noted that no monies had been paid and basically regarded the irregularities as no more than technical deviations from standard procedure. No favoritism had been shown to any company. In fact, even though negotiated contracts such as 504/48 bypassed the normal competitive bid process, the Commission did not view this as showing that the DPW was manipulating which firms received which contracts. Rather, the Commission Report concluded (Appendix 3) that contracts were negotiated if "certain work is immediately necessary and if a contractor is working on another project close by," or if "some special advantage" could be gained by the Department -- exactly as the government witnesses had testified.

Given the evidence it had studied, the Commission's conclusions were not unreasonable. Although the terms of reference allowed the investigation of contracts awarded to any contractor with or responsible for Treasury Branch debts, from the start, attention had been focussed almost exclusively on O'Sullivan and Mannix. The government's exhibits (Table 3) showed 9 contracts awarded to O'Sullivan while he was a Branch borrowing customer, but only one of these had been awarded by negotiation, while the rest had been won by submitting the low bid. Fred Mannix & Co. Ltd. was shown as having 3 such contracts, but two had been won on a low bid and the other was an extended contract, given because it was too late in the season to advertise for new tenders. Mannix-O'Sullivan was shown as having 24 such contracts, 3 of which were negotiated contracts, 1 an extended

Table 3 Main Highway Construction Contracts Awarded to O'Sullivan Construction, Fred Mannix Co. Ltd. and Mannix-O'Sullivan while indebted to or responsible for Treasury Branch debts, based on Royal Commission Exhibits*

			Bid Contracts		Negotiated Contracts		Extensions	
Date	Contractor	Contract Number	Bid ($)	Amount Paid ($)	Negotiated Value	Amount Paid	Negotiated Value	Amount Paid
13 Dec. 46	Frank O'Sullivan	435/46	32,000.00	32,127.19				
24 Mar. 47	O'Sullivan Constr.	443/47	135,960.32	142,367.40				
5 June 47	O'Sullivan Constr.	459/47	257,623.48	736,444.90				
29 July 47	O'Sullivan Constr.	469/47	50,822.96	53,042.10				
18 Nov. 47	O'Sullivan Constr.	483/47	55,176.00	55,493.85				
19 July 48	O'Sullivan Constr.	504/48neg.			707,904.82	664,589.24		
25 Oct. 48	O'Sullivan Constr.	524/48	76,121.17	89,790.64				
6 Apr. 49	O'Sullivan Constr.	527/49	11,165.92	11,295.61				
21 May 49	O'Sullivan Constr.	537/49	54,491.84	53,617.19				
31 May 49	Fred Mannix	540/49	76,010.00	89,834.99				
2 Sept. 49	Mannix-O'Sullivan	562/49neg.			151,976.50	150,677.55		
9 Sept. 49	Fred Mannix	563/49ext.					33,910.50	25,782.92
22 Nov. 49	Mannix-O'Sullivan	572/49	129,137.90	120,993.18				
11 Apr. 50	Mannix-O'Sullivan	575/50	327,170.99	380,480.66				
23 May 50	Mannix-O'Sullivan	592/50	442,071.67	782,729.35				
23 May 50	Fred Mannix	593/50	386,826.18	464,340.51				
8 Dec. 50	Mannix-O'Sullivan	620/50	336,625.00	325,674.02				
22 Jan. 51	Mannix-O'Sullivan	592/50ext.					57,375.00	57,419.59
2 May 51	Mannix-O'Sullivan	635/51**	764,581.39	208,752.80				
15 Aug. 51	Mannix-O'Sullivan	661/51neg.			416,448.27	411,534.01		
27 Aug. 51	Mannix-O'Sullivan	662/51neg.**			103,912.50	31,430.12		
3 Dec. 51	Mannix-O'Sullivan	670/51	134,700.00	139,991.23				
5 May 52	Mannix-O'Sullivan	678/52	657,109.15	680,486.14				
9 May 52	Mannix-O'Sullivan	682/52	684,659.54	672,939.64				
16 May 52	Mannix-O'Sullivan	683/52	686,592.02	633,947.95				
23 Dec. 52	Mannix-O'Sullivan	707/52	65,320.00	67,131.72				
27 Apr. 53	Mannix-O'Sullivan	719/53	991,765.67	1,074,300.97				
19 May 53	Mannix-O'Sullivan	734/53	777,402.96	802,856.19				
25 May 53	Mannix-O'Sullivan	741/53	948,186.40	918,128.12				
10 Dec. 53	Mannix-O'Sullivan	766/53	56,425.00	56,425.00				
10 Dec. 53	Mannix-O'Sullivan	768/53	40,950.00	40,955.10				
4 May 54	Mannix-O'Sullivan	789/54	306,805.23	?				
14 May 54	Mannix-O'Sullivan	796/54	620,726.95	624,314.08				
27 May 54	Mannix-O'Sullivan	811/54	653,826.11	?				
25 Apr. 55	Mannix-O'Sullivan	845/55	198,342.86	?				
27 June 55	Mannix-O'Sullivan	865/55	559,657.92	?				

*The table is compiled from government exhibits to the Royal Commission and is not a complete record of all the contracts which should have been reported to the Commission under the terms of reference. If the amount paid is designated '?' the contract was not completed at the time of the Commission.

**Contracts 635/51 and 662/51 were cancelled before they were completed.

Source: 83.197 Provincial Archives of Alberta.

contract, and 20 low bid contracts. When all these contracts are considered together, a total of 4 negotiated and 2 extended contracts was hardly sufficient evidence for the Commission to conclude the DPW was showing preference to O'Sullivan and Mannix because of their Treasury Branch involvement, particularly when the 4 negotiated contracts had been awarded during the department's postwar readjustment when negotiated contracts were more common. In fact, Mannix had paid off O'Sullivan's debt by 14 June 1951 and 2 of Mannix-O'Sullivan's 3 negotiated contracts were awarded after that date.

Endnotes

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1. The statistics, which are taken from the Public Accounts of the Province of Alberta, are summarized in Table 6.

2. Watkins, Golden Province, 178.

3. After he became ill, Macdonald was replaced, in a rather extraordinary move, by the Commission Counsel, J. Mahaffy. Perhaps to establish his objectivity and maintain the credibility of the Commission, Mahaffy allowed greater leeway when J.V.H. Milvain, the Liberal counsel to the Commission, questioned the government's witnesses.

4. For surviving records concerning main highways contracts, see 83.197, Provincial Archives of Alberta. The collection contains valuable notes authored by Highways Department personnel when they prepared government exhibits for the Commission.

5. When Manning reported on the final costs of the Commission to the Legislature, he stated that Helman was briefed on the government's highway contracts by O. J. Jones, the Department's solicitor. Jones spent 250 hours preparing for the Commission. Edmonton Journal, 2 April 1957.

6. "R.M. Scrimgeour, Secretary Calgary Builders' Exchange, to Hon. C.E. Gerhart, Provincial Secretary," 2 June 1950, 70.221/66, Public Archives of Alberta.

7. The procedure for opening tenders is explained in the Commission Report, 13-15.

8. See file 69.289/2281A.

9. "Manning to Scrimgeour," 22 June 1955, 69.289/1728.

10. Report, 6.

11. "Transcript of the Royal Commission to Inquire into Certain Charges, Allegations and Reports Relating to the Conduct of the Business of Government," Volume ii. My thanks to Mr. William Joyce, an Alberta government records officer, for tracking down the transcripts.

12. "Transcript," Volume ii, 3 October 1955.

13. The Commission, Crown, and Liberal counselors later came to a mutual agreement that exhibits regarding bridge and maintenance contracts for the 1941 to 1951 period could be limited to those involving the firms Frank O'Sullivan, O'Sullivan Construction,

Mannix-O'Sullivan Paving Compnay Ltd. and Fred Mannix & Company Ltd. With the exception of one bridge contract to O'Sullivan (438/47), the government's handling of its bridge and maintenance contracts was not a major issue during the Commission proceedings.

14. "Transcript," Volume vi, p. 317, testimony of A.M. Paull. Paull had served in various capacities in the DPW in the postwar era, including superintendent of construction and assistant highway commissioner.

15. See 83.197.

16. "J. Harper Prowse, South Edmonton Meeting," 14 June 1955, M1724/125.

17. "Transcript," Volume iv, p. 116, 5 October 1955.

18. "Memorandum," 5 October, 1955, 69.289/2281C. O'Sullivan retained 99 special shares with limited voting rights.

19. "Memorandum," 5 Oct. 1955, 69.289/2281C.

20. Public Accounts of the Province of Alberta, 1947 - 1955.

21. "Minutes," Loans Committee, 28 March 1951, 72.467.

22. "Transcript," Volume xiv, p. 933, 20 Oct. 1955.

23. "Transcript," Volume 14, p. 933, 20 Oct. 1955.

24. As of 30 Septmeber 1955, Mannix Ltd.'s loan stood at $200,000. "Olive to Deputy Provincial Treasurer," 14 Feb. 1956, 79.25.

25. "Transcript," Volume viii, 4 Oct. 1955.

26. "Transcript," Volume xi, pp. 732-33, 17 Oct. 1955.

27. When the issue of MLA loans was later investigated, Mahaffy, who was then in the chair, ruled that 'persons' included corporate bodies, which meant that the prohibition was fully applied and any inquiry into Branch loans to companies in which MLAs had investments or directorships was beyond the scope of the inquiry. "Transcript," Volume xvi, p. 1015, 27 Feb. 1956.

28. "Statement of Overtime Worked in Compiling Data for Royal Commission Inquiry," 83.197. In a recent interview, Milvain recalled the government's strategy: "The government were bringing everything; they were hiding nothing; on the face of things they brought every brad and piece of paper and paper clip that might be involved." Personal Interview with J.V.H. Milvain, Calgary, Alberta, 28 March 1988.

29. Meir Serfaty, "Harper Prowse and the Alberta Liberals," Alberta History, 29:1(Winter,1981), 7.

30. "Transcript," Volume xii, pp. 816-17.

31. Ibid., 719.

32. Ibid., 720.

33. Ibid., volume xiii.

34. "Transcript," Volume vi, p. 317, 7 Oct. 1955; Volume viii, pp. 496-97, 12 Oct. 1955.

35. "Transcript," Volume v, p. 288, 4 Oct. 1955.

36. Milvain was actually a prominent member of the Conservative Party in Calgary. He was probably hired as the Liberal counsel because Prowse had served as his junior when he was studying law and Liberal MLA Hugh John Macdonald was Milvain's law partner. Milvain Interview.

37. "Prowse to Kidd," 1 June 1953, M1724/56.

38. Milvain Interview.

39. One of the rumors about contract awards was that the DPW could tip off a contractor about how much to bid by informing him of the departmental allocation for a job. Milvain's only witness, Edward Walden who was a former employee of the Bennett & White construction firm, testified that O'Sullivan, in conversation, had indicated a prior knowledge of the amount it would take to bid successfully on contract 438/47, a contract to build a bridge across the Oldman River. O'Sullivan later successfully bid on the contract. The government countered that knowledge of an allocation would not be helpful since bids were based on unit prices, not gross figures and suggested that Walden had confused his dates and, in any case, held a grudge against O'Sullivan because of a contract dispute. Report, 65-67.

40. Milvain's strategy may be gleaned by studying the Royal Commission "Transcript," volumes i - xvi; Milvain interview.

41. "Transcript," Volume iv, p. 230.

42. Milvain interview.

43. "Transcript" The testimony on these two contracts is scattered through Volumes iv, v, vi, vii, viii, ix, xiii.

44. Milvain interview.

Chapter 5

The Manning Government's Support for O'Sullivan

[i]

When the government designed its Commission strategy to counter Prowse's Company A Company B charge, it was essentially trying to block the discovery of three facts. First, it was trying to hide the origins and the full extent of the Treasury Branch's repayment problems with the O'Sullivan and Sparling-Davis loans so that there would not appear to be any substantive motive for the government to favour O'Sullivan or Mannix when it awarded highway contracts. Second, it was trying to hide the DPW's subverting of the competitive bid process to benefit O'Sullivan and Mannix. Third and perhaps most importantly, the government had to hide the fact that there had been collusion between the Treasury Branch and the DPW when decisions were made about who would receive highway construction contracts. No hint of Treasury Branch pressure on the DPW, whether that pressure was exerted directly by Branch personnel or indirectly by other government officials, could appear to have ever existed. Ultimately to avoid discovery of these facts, the government's first two lines of defence were not enough. The Manning government required a third line of defence, the intent of which was deliberately to deceive the Commission by withholding some information and providing other information which was false.

In all the exhibits on main highway construction combined, the Commission examined a total of only 15 negotiated contracts. The Commission did not know that the government had withheld a total of 14 contracts (Table 4), all of them negotiated and 9 of them involving O'Sullivan or Mannix-O'Sullivan. Under the terms of reference and the rulings of the chair, each of these 14 contracts should have been included in the exhibits. By withholding this information, the government made contracts which the DPW negotiated with contractors who had or were responsible for Treasury Branch loans appear incidental and in proportion with overall contract awards. In fact, negotiating contracts was the most important means the DPW used to assist a preferred contractor. Of the 15 negotiated contracts which the Commission did see, only 6 involved customers owing debts to the Treasury Branch or responsible for such debts. The Commission did not know that there were actually 18 such contracts. (Table 5) In addition to negotiating contracts, the DPW used other methods to rig contract awards which allowed it practically to guarantee that O'Sullivan would submit the low bid on some of his other contracts, including 459/47. The Commission did not know that the government's explanations for negotiating some other contracts, such as 504/48, were largely fictitious, or that, after Mannix took over the O'Sullivan loan, Superintendent Olive requested and received Premier Manning's okay for the DPW to assist Mannix-O'Sullivan as it had previously assisted O'Sullivan.

Table 4

Contracts the Manning Government Withheld from the Royal Commission

Negotiated Contracts

Award Date	Contractor	Contract Number	Negotiated Value ($)	Amount Paid ($)
24 Mar. 47	O´Sullivan Constr.	449/47neg.		29,606.73
29 May 47	O´Sullivan Constr.	472/47neg.		6,837.74
June 47	O´Sullivan Constr.	467/47neg.	15,000.00	13,597.09
11 May 48	O´Sullivan Constr.	497/48neg.		23,537.93
19 Oct. 48	O´Sullivan Constr.	498/48neg.		30,783.45
4 June 48	O´Sullivan Constr.	499/48neg.		5,330.30
13 July 49	O´Sullivan Constr.	551/49neg.		6,322.87
16 July 49	Thordarson Constr.	552/49neg.		55,453.80
26 Aug. 49	Mannix-O´Sullivan	557/49neg.		16,800.00
n.d.	C.W. Arkinstall	624/51neg.*	108,750.00	16,259.58
19 Apr. 51	Mannix-O´Sullivan	625/51neg.	79,733.13	
Oct. 51	Mannix-O´Sullivan	625/51amend.	98,869.08	165,796.54
n.d.	D.K. Construction	703/52neg.**	20,000.00	11,952.00
12 Nov. 53	Cleve Construction	762/53neg.**	14,700.00	15,717.90

All contracts should have been included in government exhibits regarding Treasury Branch debtors and contractors responsible for such debts according to the terms of reference and the ruling of the Commission Chair.

*552/49 was omitted at the request of Superintendent Olive.

**No evidence has been found to suggest that D.K. Construction and Cleve Construction were Branch customers. The contracts were probably omitted as part of the government´s attempt to make it appear that negotiated contracts were basically a postwar phenomenon.

Source: 83.197 Provincial Archives of Alberta.

Table 5

Negotiated Main Highway Construction Contracts Involving Contractors Indebted to the Treasury Branch or Responsible for Such Debts

			Negotiated Contracts	
Award Date	Contractor	Contract Number	Negotiated Value ($)	Amount Paid ($)
19 Oct. 43	Thomas Kirwan	397/43neg.	5,635.00	?
14 April 47	J.E. Layden	451/47neg.	12,150.00	?
24 Mar. 47	O´Sullivan Constr.	449/47neg.*		29,606.73
29 May 47	O´Sullivan Constr.	472/47neg.*		6,837.74
June 47	O´Sullivan Constr.	467/47neg.*		13,597.09
11 May 48	O´Sullivan Constr.	497/48neg.*		23,537.93
19 Oct. 48	O´Sullivan Constr.	498/48neg.*		30,783.45
4 June 48	O´Sullivan Constr.	499/48neg.*		5,330.30
19 July 48	O´Sullivan Constr.	504/48neg.	707,904.82	664,589.24
13 July 49	O´Sullivan Constr.	551/49neg.*		6,322.87
16 July 49	Thordarson Constr.	552/49neg.*		55,453.80
26 Aug. 49	Mannix-O´Sullivan	557/49neg.*		16,800.00
2 Sept. 49	Mannix-O´Sullivan	562/49neg.	151,976.50	150,677.55
n.d.	C.W. Arkinstall	624/51neg.*	108,750.00	16,259.58
19 Apr. 51	Mannix-O´Sullivan	625/51neg.*	79,733.13	
Oct. 51	Mannix-O´Sullivan	625/51amend.*	98,869.08	165,796.54
15 Aug. 51	Mannix-O´Sullivan	661/51neg.	416,448.27	411,534.01
27 Aug. 51	Mannix O´Sullivan	662/51neg.	103,912.50	31,430.12

* Contracts the government withheld from the Royal Commission which should have been included in exhibits regarding Treasury Branch debtors and contractors responsible for such debts according to the terms of reference and the rulings of the Commission Chair.

Mannix Ltd. contracts are not included.

Source: 83.197 Provincial Archives of Alberta.

The Commission had accepted as true the evidence in the government exhibits just as it had accepted the testimony of the various government witnesses. Yet several of these gentlemen must have known that the government was trying to deceive the Commission and several played an active role in that deception. A. Frame, as Deputy Minister after 1951, and A.M. Paull, as head of the Highway Construction Branch, would have known that several highways contracts were omitted from their department's exhibits and Frame almost certainly would have known that pressure had been exerted on the Department to award contracts to Mannix. G.H.L. Monkman denied knowledge of any preference shown to any contractor regardless of any Treasury Branch involvement,[1] yet as Deputy Minister until 1951, all tenders would have been opened in his office[2] and he would have been aware that the Main Highways Branch was helping O'Sullivan win contracts. When it came to the issue of whether the DPW was ever asked to show preference to Treasury Branch customers, Olive denied that such preference had ever been asked by the Branch and D.B. MacMillan, the former Minister testified: "I was never approached by anybody in the Treasury Branch or the staff or Mr. Olive or anyone. In fact I don't believe I knew at the time Mr. O'Sullivan was dealing with the Treasury Branch at all."[3] Yet when Manning agreed that the Highways Branch of the DPW should assist Mannix because he had assumed responsibility for O'Sullivan's loan, it was largely based on Olive's memorandum asking for such assistance, and it was to MacMillan that the Premier's Office forwarded the memorandum.

Without the government's third line of defence, it is almost certain that the Commission would have ruled that the DPW had shown preference in its awards to O'Sullivan Construction and possibly to the Mannix companies as well. The sheer number of negotiated contracts these firms received in comparison to other firms would have increased that suspicion even if the Commission had never discovered the reasons why O'Sullivan's Treasury Branch loans had become troubled. However, it would be a mistake to think, as Prowse did, that the government offered preferential treatment for O'Sullivan and Mannix just to bail the Branch out from its troubled loans. As was suggested before, the preference began as part of a coordinated government strategy involving both highway contracts and pyramided loans in order to channel industrial development through the Treasury Branch and thus strengthen the institutional base of social credit. It only turned into a bail out operation when the government's incentive program for O'Sullivan failed and threatened the Branch with a major loss on its loans.

The preference which the government showed O'Sullivan so closely resembles its treatment of Sparling that the similarities deserve emphasis. The government's involvement with Sparling will then be considered more fully in the next chapter. The government's assistance to O'Sullivan and Sparling shows how its strategy of using devious routes to achieve social credit worked in practice. From one point of view, the government's preferential treatment of these two firms began as a strategy to harness the industrial development of the province to the Treasury Branch so that the province's social credit infrastructure would grow along with the economy. However, the preferential treatment could also be viewed as a fairly typical example of a free enterprise government providing incentives to private enterprise in order to sponsor economic diversification. Although, from this point of view, the government's use of the Treasury Branch and its cover up of its contract dealings were somewhat dubious, several provinces were using industrial development institutions, similar in nature to the AIC and the Marketing Board to encourage industry[4] and there was nothing unusual about providing assigned contracts to a favoured business.

The government's support of the O'Sullivan and Sparling loans was carefully coordinated between the Treasury Branch and other government departments and agencies to gain maximum benefits for the government's ideological and economic goals. The Branch's support of O'Sullivan was coordinated with the Department of Public Works which allocated contracts to O'Sullivan in preference to other contractors. The government was planning a major highway construction program and it wanted O'Sullivan to play a significant role in that program. The DPW was in a perfect position to ensure that O'Sullivan's equipment and manpower were kept busy on highway construction which, in turn, was supposed to ensure that O'Sullivan made sufficient profits to pay back his Treasury Branch indebtedness. The Branch's support of the Sparling companies was coordinated with government financing from the Marketing Board and the Alberta Industrial Corporation. The government was excited by the possibility that a group of companies involved in the pipeline and oil supply industry were prepared to invest in Alberta and were willing to deal with the Treasury Branch, but Sparling's need for capital investment was obviously more than any one government agency could provide.

The Branch's handling of the O'Sullivan and Sparling loans followed the same general pattern as the pyramiding loans which have previously been examined. Liberal credit limits were established without any meaningful risk evaluation being undertaken by the Branch, which, instead of demanding strict repayment, pyramided the loans while contract earnings were either ploughed back into expansion so that additional work could be undertaken or applied against operating expenses. In neither the case of O'Sullivan nor Sparling did the Branch even have access to a current financial statement or any proof that the company was profitable before it began pyramiding loans. In each case, the Branch was warned by the provincial auditor or the deputy provincial treasurer about various loans irregularities and, as the loans became dangerously extended, about the dangers of the Branch becoming too dependent on its client's capital assets for repayment. The Branch's faith in pyramiding was unshaken by these warnings and it continued to advance monies in order to build its clients into major players in the Alberta economy. Thanks to the massive infusion of credit, O'Sullivan soon emerged as one of the three top Alberta highway construction firms while Sparling was working on pipeline contracts worth millions of dollars.

The problem was that neither O'Sullivan nor Sparling were making enough profits on its contracts to pay back its loans to the Treasury Branch and there was no sign that the government was aware of the causes of either company's unprofitability. Instead, it continued to try to solve the one problem it understood -- the lack of purchasing power -- by advancing additional funds through the Treasury Branch. As the loans the Branch granted to O'Sullivan increased in value, so the contracts the DPW handed him increased in size, in a mutually reinforcing relationship. Larger loans were necessary to pay the increased operating expenses incurred in fulfilling larger contracts. Larger contracts were necessary if O'Sullivan's earnings and profits were ever to be sufficient to pay off his increased loans. The government was not involved in pipeline construction or storage tank construction so it could not provide contract work for Sparling. Instead, it tried to balance the risks of funding Sparling among the Branch, the AIC, and the Board. When the financial support of Sparling began to endanger the Branch, the AIC and the Board provided additional funds. Later, when Sparling experienced difficulty paying its loans to the AIC and the Marketing Board, it was the Treasury Branch's turn to absorb the additional risk by making up the shortfall in Sparling's financing. In fact, for some time, the Treasury Branch was financing Sparling-Davis Co. Ltd.'s payments on the AIC loan which had originally been made to decrease the Treasury Branch loan to Sparling, while at the same time it was financing a portion of Sparling's payments to the Marketing Board. The situation became even more complicated when two other Sparling companies, Canadian Equipment Sales and Service Company (CESSCO) and Hupp & Elliott, bought some of Sparling-Davis's assets and the Branch provided them with financing, some of which was used for payments to Sparling-Davis.

As the Treasury Branch slowly came to recognize that it would have trouble securing repayment from O'Sullivan and Sparling, it gradually imposed the kind of conventional banking safeguards on its loans which would have been standard all along for any bank loaning that much money. The long period during which the Sparling loan pyramided provides an excellent opportunity to observe in action the Branch's continuing faith in social credit economics and its very gradual acceptance of standard loan safeguards. However, the Branch was unwilling to enforce a liquidation schedule or to foreclose on either O'Sullivan or Sparling. Of course, any such action by the Branch would have required the consent of the government and the government plainly lacked the political will to face up to the costs of its unfortunate involvements with O'Sullivan and Sparling. When the government finally recognized the fact that neither O'Sullivan nor Sparling would be able to use its increased purchasing power to make sufficient profits to pay off its loans, it had to plan a way to minimize the economic and political losses.

In the case of O'Sullivan, the Branch finally decided, early in 1949, to adopt a policy of credit restriction. The Branch's action was timed to take advantage of O'Sullivan's earnings from the previous two years' highways contracts most of which were still due for release from the DPW. Most of the earnings were assigned to the Branch and the combination of reductions from the assignments and the restriction of further credit promised the Branch the maximum decrease which it could hope for on O'Sullivan's loans. Once O'Sullivan's credit was restricted and most of its earnings were drained off to pay its loans, the company rapidly became cash starved and ripe for takeover. It could not even hope to augment its earnings from new government contracts since, after the policy of credit restriction began, O'Sullivan received no new highways contracts until April 1949. By then, negotiations with Mannix were well-advanced. Those negotiations lasted almost two months and it is likely that the government's continued credit restriction during this time was detrimental to the Treasury Branch's interests although it must have benefitted Mannix.

In the case of the Sparling loan, the Branch had slowly imposed increasing control over Sparling's operations until it finally had the right to make any management decisions including liquidation decisions, without Sparling having any legal recourse. But the government still lacked the political will to enforce liquidation or to foreclose. Indeed, when the Branch finally began to restrict Sparling's credit, negotiations for a takeover by Mannix seem already to have been in progress. Sparling had previous experience in several joint projects with Mannix and, as the Branch knew, Mannix had been interested since 1950 in purchasing Sparling-Davis. The Branch's policy of credit restriction had a devastating impact on the Sparling companies, which rapidly became cash-starved. There was only one possible benefactor of the government's decision that the Treasury Branch should continue to restrict Sparling's credit for the several months during which negotiations with Mannix were ongoing: Mannix.

A similar pattern emerged after Mannix's takeover of O'Sullivan and Sparling. At first, the government was optimistic and, in the case of O'Sullivan, even began allocating highway contract work to Mannix's new company, Mannix-O'Sullivan. In each case, however, a dispute soon developed between Mannix and the government over how much assistance the government would provide and how much Mannix would pay down the loan. In the case of Mannix-O'Sullivan, government support was withdrawn for a time, then a compromise was reached, more contract work was supplied, and the loan was quite quickly repaid. In the case of Sparling Davis, the dispute lasted much longer and the loan was still outstanding in the late 1950s. Further research would be required to be certain of the assistance the Manning government provided to recover the Treasury Branch's Sparling Davis loan. However, in broad outline, some of the Manning government's efforts will be discussed in Chapter 7.

ii

For two years, from early 1947 to February 1949, the Manning government sponsored the growth of O'Sullivan Construction by pyramiding its Treasury Branch loans and providing regular highway construction work through the DPW. Frank O'Sullivan first opened a Treasury Branch account in 1946 with a $25,000 loan for expenses on a sub-contract to Bennett & White Construction Company "for excavation work on the St. Mary's Dam."[5] Business opportunites in the highway construction industry were expanding after the wartime lull and Manning's 1946 budget speech had highlighted the government's intention to commence a major five year highway construction program.[6] The government was determined that the Treasury Branch's new customer would play a major role in that program and that the Branch would enjoy some of the benefits of the government's spending.

By May of 1947, when repayment problems on the O'Sullivan loan came to the attention of Percival, the Loans Committee's handling of the account already revealed all the symptoms of the Branch's continuing adherence to social credit economics and its partial rejection of conventional banking procedures. Advances were being granted without any meaningful control over how the money was spent and without adequate repayment from the earnings of O'Sullivan's contracts, which were apparently being diverted to buy more equipment and pay for various operating expenses. Loans had pyramided to $174,000 and even though Manning himself had just turned down a request from O'Sullivan for a total of $335,000 in financing, Olive had turned around and, without Loans Committee authorization, unilaterally advanced an additional $28,500. What upset Percival even more was that the Branch had never seen a financial statement for O'Sullivan for 1946 but there was no indication that the company had made a profit or that conditions had since improved; he did not think the loans were adequately secured and, incredibly, the Branch had not required the assignment of a large paving contract which had recently been awarded by the DPW. Percival ordered Olive to obtain specific assignment of accounts receivable, supervise those accounts and loan securities more closely, and discontinue the practice of granting unauthorized advances.[7]

It must have become obvious to Percival over the next few weeks that, although Olive's unauthorized advances to O'Sullivan appeared to contradict Manning's decision not to grant a lump sum credit of $335,000 relating to one project, the Superintendent had the Premier's blessing to extend additional credit on an incremental basis as O'Sullivan's requirements expanded. Percival was in a frustrating position. He was expected to provide sound financial advice and ride herd on Olive, but on several key decisions affecting the Treasury Branch, it was Olive, not Percival, who had Manning's confidence. Manning preferred a fiscally conservative Deputy Treasurer and, when Percival died in 1949, Manning chose a replacement who was just as orthodox, K.J. Hawkins. This does not mean that Manning himself was fiscally orthodox at this time; rather, politically, he understood the importance of maintaining a balance between the true believers in social credit economics within his government and those who advocated more orthodox approaches. Thus, when Olive was replaced as chairman of the Loans Committee, his successor, Campbell Fraser, was just as prone to pyramid loans as Olive, and it became Hawkins' duty to counter Fraser's less orthodox tendencies together with those of Olive, who remained as Superintendent. So long as the Superintendent and chairman of the Loans Committee had Manning's backing -- which was generally the case until after the 1955 election -- the Deputy Treasurer could not hope to do much more than curb some of the Treasury Branch's worst abuses.

In this case, Olive promptly disregarded most of Percival's orders and continued to apply a social credit solution to O'Sullivan's loans problems by allowing the loans to pyramid further in the apparent belief that this increase in purchasing power would place the company on a profitable basis. By October of 1947, additional advances of more than $100,000, combined with the lack of any significant reductions despite the fact that the DPW had released $266,000 in payments to O'Sullivan for completed work, had increased the total loan to

$309,135. Over $233,00 of the DPW receivables had been assigned to the Branch for repayment and Percival believed the monies had instead been diverted to pay for the operational expenses of the project which Manning had refused to fund the previous May. In addition, O'Sullivan had borrowed $81,000 privately and was, according to the reports Percival was receiving, having trouble on his northern contract (459/47) and would be unable to complete other contracts before the close of the construction season. He considered the O'Sullivan loan "far in excess" of the amount he should have received and demanded an explanation from Olive.[8]

There are no exact figures available on O'Sullivan's loan over the next few months but according to the statistics Olive later supplied to the Royal Commission (Table 2), Percival's warnings may temporarily have been heeded since, by the end of 1947, the total loan decreased to $172,500 presumably because O'Sullivan's DPW contract earnings were finally being applied. However, the figures Olive presented to the Commission were generally unreliable and the actual reduction may have been less.[9] In any case, Olive was soon once more advancing O'Sullivan monies without authorization from the Loans Committee. In fact, the account operated on an unauthorized basis from the early spring of 1948 until 24 November 1948, by which time O'Sullivan's loans had pyramided to $710,000. At the Loans Committee meeting of that date, the Committee, which had previously disclaimed all responsibility for the account, reprimanded Olive for exceeding his authority and instructed him "to carry the account on a strict liquidation basis."[10]

As will be discussed later, the November meeting marked the beginnning of a major reevaluation of the Branch's handling of the O'Sullivan account which then led to the institution of credit restrictions early in 1949. In fairness to Olive, much of the almost $500,000 he had advanced without Loans Committee approval had been designated for operating expenses so that O'Sullivan could complete the DPW contracts he had been awarded. The aggressive pyramiding of O'Sullivan's loan and the blatant favoratism of the DPW in awarding O'Sullivan highway contracts, which had both been designed to turn a Treasury Branch customer into a major player in the highway construction industry, were drawing to a close. By the fall of 1948, Olive's unauthorized advances were simply allowing O'Sullivan to play out the role the government had chosen for him. His problems in making a profit from his contracts were becoming more and more obvious and, in the new year, the government decided that there was little point to giving O'Sullivan still more contracts or pyramiding his loans still further when the previous two years experience had shown that its efforts were wasted.

Contracts 459/47 and 504/48 were the two major contracts intended to provide O'Sullivan with the opportunity both to consolidate his stature in the construction industry and to liquidate his Branch loans, but these were not the only contracts the DPW channelled his way. In theory, there were myriad ways the DPW could influence which company received which contract, particularly when there was no statutory requirement that a contract be publicly advertised, or even put to tender, or that the bids be opened in public. There was commonly only one week between the placement of an advertisement and the close of a competition so that a contractor with previous knowledge of the contract specifications would have an advantage in calculating appropriate unit prices and submitting his bid on time.[11] The tender process could be bypassed entirely and a contract could be negotiated directly with a favored contractor, or tenders could be called for, then the government could decide that all the bids were too high and negotiate a lower price with just one of those contractors--there was no requirement that it be the low bidder or that the negotiated price be significantly lower. If tenders were called for, after competitors' bids were opened, a government representative in consultation with a representative of a favored company, could work out acceptable unit prices which would result in a low bid. A contractor could submit alternate bids at varying unit prices and the DPW could choose whichever one resulted in a low bid. Once a contractor was working in a given region of the province, a subsequent contract could be advertised for nearby work, allowing that contractor to underbid the competition due to lower overhead costs, including transporting equipment. The DPW was fully cognizant of how much equipment each contractor had and thanks to its weekly progress reports on all construction projects it could time the commencement date on a new contract so that only a particular contractor would have equipment available. This could also enhance a contractor's profits by keeping his men and equipment busy, which was particularly important in the case of paving equipment, due to the high initial capital investment.

There were also several ways for the DPW to enhance the profits a contractor would make once construction had actually started. As suggested before, the profits of a particular contract could be affected most dramatically by assigning additional work, and thus creating an overbid, or by offering extensions. But the timing of contract awards could be almost as important. Idle workers and unused machinery, particularly if it was bought on credit, could quickly erode the profits from a completed contract while waiting for the next to begin. In fact, the risk of investing in new equipment was considerably reduced if a contractor knew in advance that his new equipment would be kept busy, whether through contract awards or the assignment of additional work to existing contracts. Lastly, Alberta's construction season was short but certain tasks, such as crushing and stockpiling gravel or clearing land preparatory to building a road, could be undertaken during the winter months. If the DPW chose to allocate contracts for those tasks, it could help a contractor get over the lean winter months when no earnings from other contract work could be expected but when overhead costs such as loan payments still had to be met.

Although some of these methods of influencing contract awards and earnings may suggest a level of intrigue which seems farfetched, several of them were alleged by the opposition parties during the election or by Milvain during the Royal Commission to have been used by the Manning government to assist its Treasury Branch clients -- and many of them actually were used. Contract 459/47, for instance, was the single most important contract O'Sullivan ever won. Thanks to a bid of $257,623, O'Sullivan earned a total of more than $1.4 million, including both the overbid on 459/47 and negotiated contract 504/48. It will be recalled that Milvain had tried to make exactly that link between 459/47 and 504/48 by arguing that, based on references in departmental files, 504/48 was an extension of 459/47. The government had countered that it was a separate negotiated contract and that it had only been negotiated because the other contractors in the province with paving equipment -- W.C. Wells and Standard Gravel -- were busy working on other contracts and could not have complied with the commencement date specified in contract 504/48. (Appendix 3) In contrast, the "O'Sullivan Construction Co. were in the final stages of completing their contract from Edmonton to Legal [459/47], and their equipment was readily available to continue the paving from Morinville to Clyde Corner [504/48]." Since O'Sullivan had won 459/47 through the regular tender process and his was the only paving unit available to start 504/48, there seemed little reason for the Commission to suspect the government was intentionally rigging contracts for O'Sullivan.

What Milvain and the Royal Commission did not know was that O'Sullivan submitted two bids on contract 459/47, one for $253,520 and one for $257,623. The DPW not only helped O'Sullivan win the contract by accepting two bids, it actually awarded him the contract on the basis of the higher bid.[12] Furthermore, the government's explanation that it had negotiated 504/48 because all other paving units were busy was a fiction that had been created to satisfy the Royal Commission. All other contractors were busy, but there is no evidence to suggest that the government had been cognizant of that fact when it gave O'Sullivan 504/48 in July of 1948; it had only discovered that the

Wells and Standard Gravel paving units were busy on other contracts in September of 1955 when it deliberately checked back through the Main Highways Branch weekly Construction Reports for 1948 in preparation for the Royal Commission.[13] It then recreated those activities in a fictional account which made them appear paramount to the reasoning behind the decision to negotiate 504/48 and presented that explanation to the Commission.

Competition for asphalt contracts was likely intense throughout this period because of the high capital costs of the equipment and for the government to argue that it had saved money by negotiating 504/48 was ludicrous. It was not the only asphalt contract which was negotiated by the government following World War II but it was by far the largest. Four contracts involving either seal coat surfacing or hot plant asphaltic surfacing were negotiated with firms which were not involved with the Treasury Branch but their combined total value was less than $50,000.[14] Other than that, the only asphalt contracts which were negotiated involved Mannix-O'Sullivan: 562/49 which paid $150,677.55 and 661/51 which paid $411,534.01. They will be discussed later.[15]

In comparison to the awards other contractors received, there was nothing which was usual or ordinary about the government's allocation of 459/47 and 504/48 to O'Sullivan. Even for O'Sullivan they were extraordinary. There is no evidence that other contractors were allowed to submit alternate bids and they certainly did not receive negotiated contracts of the magnitude of 504/48. O'Sullivan's earnings on 504/48 were the highest on any negotiated contract in the postwar era. In fact 459/47 and 504/48 were two of the four largest contracts to be awarded by the DPW in the 1940s after the war.[16] To receive these two contracts, O'Sullivan did not have to compete against other contractors; he just had to be a favoured Treasury Branch customer. The government was serious about building its social credit infrastructure by assisting particular Treasury Branch customers. Its pyramiding of O'Sullivan's loans and subverting of government contract awards provides some indication of how far it was willing to go to make sure the Treasury Branch grew with the economy.

Although 459/47 and 504/48 were the two most important contracts the DPW gave to O'Sullivan, they were not the only two. Allowing alternate bids, as on 459/47, was not the favorite tactic used by the DPW to channel contracts to O'Sullivan, but it was also allowed on contract 443/47. O'Sullivan submitted two bids and won the contract with a bid of $135,960.32 on 31 March 1947; it paid $142,367.40 on completion.[17] There is no record of the amount of the other bid.

By far the most common method the DPW used to give work to O'Sullivan was to bypass the bid process entirely and negotiate contracts with him directly. The simplicity of negotiating contracts was inviting and the DPW did it often, which was one reason why the government had to mislead the Royal Commission. By withholding information in its exhibits to the Commission, the government made it appear that the DPW had only negotiated one contract with O'Sullivan and that was 504/48. One negotiated contract was hardly evidence that the DPW had tried to favor O'Sullivan because he was a Treasury Branch customer. In reality, however, the DPW had negotiated eight contracts with O'Sullivan (Table 5). According to the information which was prepared for but never submitted to the Commission, there were no formal written contracts for any of these contract awards, or bid sheets itemizing unit prices, or initial negotiated prices, except in the case of 467/47.[18]

The withheld contracts provide clear evidence not only that the government was favouring O'Sullivan but that the logical, fiscally responsible approach to negotiating contracts which it described to the Royal Commission only vaguely resembled the actual process. Most of the withheld contracts paid less than $25,000 and were probably intended to keep O'Sullivan's equipment busy between major jobs or to provide quick earnings which could be applied against operating expenses on other contracts -- either of which also reduced the pressure on the Treasury Branch to provide extra funds. On many of these contracts, commencement dates were probably not important. The DPW simply made work available which could be undertaken whenever O'Sullivan's men and equipment were available. In this way, lost profits due to inactivity could be minimized. 497/48, as an example, was awarded on 11 May 1948, yet work did not commence until 6 May 1949; it was completed by 10 May 1949 and paid O'Sullivan $23,537.93.[19] On the other hand, contract 551/49 was awarded 13 July 1949 but work had commenced more than one month earlier on 2 June 1949.[20] 551/49 then was like contracts 438/47, 459/47 and 504/48, on all of which Milvain established during the Commission that work had started before the contracts were signed. The large number of stockpile contracts negotiated with O'Sullivan are worthy of note. Stockpile contracts were particularly valuable because they could be completed outside the normal construction season or when there was a lull in work. It appears likely that the stockpile contracts were undertaken by O'Sullivan on the basis of a verbal understanding, with the DPW either specifying the payrate and the quantity of gravel to be stockpiled prior to the commencement of work or else allowing work to progress at a specified rate and then simply terminating the contract as departmental allocations were exhausted.

The true magnitude of the government's assistance to O'Sullivan can best be appreciated when his Treasury Branch loans and DPW contracts are considered together. From early 1947, by which time it is clear that the Treasury Branch was pyramiding O'Sullivan's loans and the DPW was giving him contracts, until February of 1949, by which time the Treasury Branch had instituted its credit restrictions and the DPW had stopped helping O'Sullivan obtain contracts, the government provided O'Sullivan with generous credit for his operating costs without any requirement for significant repayment; it allowed him to use most of his earnings for operating expenses or to divert them into expansion; and it made certain that his men and equipment were kept continuously busy so that he could maximize his profits. O'Sullivan's loans pyramided from less than $100,00 to more than $700,000 while hundreds of thousands of dollars in earnings which were assigned to the Treasury Branch were used by O'Sullivan for various operating costs and to buy more highway construction equipment. When O'Sullivan's highway construction contracts for 1947 and 1948 are examined as a group, out of twelve contracts paying a total of $1,851,421.37, there are only three contracts paying a total of a mere $198,326.59, where it cannot be demonstrated that the DPW was showing a preference for O'Sullivan. In the same period, the DPW negotiated seven contracts, which paid $774,282.46, and subverted the tender process by allowing alternate bids on two contracts, which paid $878,812.30. A total of $1,653,094.76 worth of contract earnings was denied to other Alberta contractors.[21]

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Despite the Manning government's best efforts to provide O'Sullivan with operating credit, to help him buy new equipment, and to give him lucrative contracts, O'Sullivan was not able to make the profits which would make repayment of his loans possible. In fact, the government was largely responsible for its own misfortune. Olive and the Manning government had wrongly evaluated O'Sullivan Construction's managerial expertise and professional competence when they began pyramiding the company's loans. Under Olive's direction, the Treasury Branch had treated the fulfillment of O'Sullivan's growth potential as if it were simply a matter of providing increased purchasing power. It had begun pyramiding O'Sullivan's loans without an audited statement of the company's accounts or proof that the company could make a profit[22] and it had ignored the standard precautions a bank would have taken to secure its loan. It had ignored Percival's warnings that O'Sullivan's pyramiding loans were exceeding his ability to repay just as it had ignored his demands that reductions on those loans be made,[23] and just as it had ignored his warnings and those of the DPW that O'Sullivan was having problems fulfilling his contracts satisfactorily.[24] Ironically, the government's continued adherence to social credit economics and disregard for conventional banking safeguards were undermining its efforts to sponsor the growth of its prized social credit institution by having the Branch back O'Sullivan Construction.

It was ironic as well that the Branch's worst pyramiding of O'Sullivan's loan occurred shortly after Percival's warning of March 1948 that the Branch in general had too many large, long term loans and that it had to stop increasing credits to weak borrowers.[25] In part, of course, pyramiding was the Branch's solution to the problems of a weak borrower, but in this case, it was a political solution as well, for it was also in March of 1948, during the Public Accounts Committee meetings, that Prowse began criticizing the Branch for its sloppy registration of securities on long terms loans in general and, in particular, on the O'Sullivan loan. As was discussed in Chapter 3, the government was not about to let the Committee know about the Branch's problems in recovering some of its large long term loans and defended the O'Sullivan loan specifically. At the same time, political sensitivities had caused the government to establish a bad loans' fund for the Treasury Branch. The decision to establish the fund was probably designed to quieten opposition criticisms, particularly those of J. Percy Page, and tc satisfy the business community that the Branch was being fiscally responsible. In addition, 1948 was an election year in Alberta and, even if the government had wanted to cut back its support to O'Sullivan, it was not the right time. The potential political costs of abandoning O'Sullivan always outweighed the economic costs of continuing to support him.

Although the government had allowed the O'Sullivan loan to pyramid longer than it had any other account and to create the largest debt in the Branch's history to that time, it also seems to have signalled O'Sullivan that its support would not continue indefinitely. That signal was provided on 17 July 1948, by contract 504/48. The contract was given with all earnings which accrued prior to 31 May 1949 assigned to the Treasury Branch.[26] It seems likely that 504/48 was the test contract which would determine once and for all whether the government would continue to support O'Sullivan and that 31 May 1949 was the deadline. By then, O'Sullivan had to demonstrate the ability to liquidate his loans.

Following Percival's reprimand in November of 1948 for allowing O'Sullivan's loan to pyramid to over $700,000, an auditor's examination of O'Sullivan's accounts was called for by the end of the year. Although the auditor's report is not available, the minutes of the Loans Committee record several of the auditor's findings and provide ample evidence of O'Sullivan's continuing inability to pay off his loans. By early December, he had decreased his loan to $484,275 but his liabilities still exceeded his receivables, $664,931 to $569,275. While the Committee awaited the auditor's report, it was willing to maintain the policy Olive had been following in the previous weeks and it advanced an additional $100,000 on the basis of expected reductions of $200,000 from DPW earnings.[27] With the receipt of the auditor's report, the confrontation between Olive and the Committee came to head at the 19 January 1949 Committee meeting which considered O'Sullivan's request for another $40,000 to pay some accounts which were due. O'Sullivan's loan stood at $397,000 which included another unauthorized advance of $20,000 from Olive. O'Sullivan's government receivables amounted to $370,197 but his total liabilities, including the Branch loan, various accounts due, and $81,000 owed to Broder of Taber for a paving machine, totaled $513,980. His capital assets were estimated at $238,829 for O'Sullivan Construction and $80,000 for Lethbridge Sand and Gravel. Even the combined total of his receivables and capital assets only outstripped his total liabilities $689,026 to $513,980.[28] As had been the case since O'Sullivan's loan first started pyramiding while his assigned earnings were being used to acquire additional capital assets, the ultimate liquidation of the loan depended on the earnings which could be derived from those capital assets and O'Sullivan had still not proved his ability to make that kind of profits. This time the Loans Committee refused both to condone Olive's unauthorized advance and to grant O'Sullivan's request for $40,000, but it soon learned what Olive and the cabinet had known for some time: the political costs of simply abandoning such a major customer of the Branch were prohibitive. A better arrangement had to be found and in the meantime an emergency meeting of the Committee with Percival resulted in the approval of O'Sullivan's request for $40,000, with a final decision on the handling of the account to be made at a later meeting.[29]

In all likelihood the final decision on the O'Sullivan account was made in cabinet. The government had to balance the economic costs of continuing to support O'Sullivan with the political costs of exposing a major Treasury Branch client to a probable bankruptcy. The basic features of the compromise on which it decided appear to have been that any new advances to O'Sullivan from the Treasury Branch would be restricted to cover certain payroll costs and any emergent accounts payable so as to offset the possibility of bankruptcy; assigned earnings would be strictly collected and no new DPW contracts would be arranged to help O'Sullivan earn additional funds to make up for the shortfall from the Branch. The institution of the policy was perfectly timed to give the Branch the advantage of receivables as they came due from the considerable highway contract work O'Sullivan still had to complete.[30] But the new government policy also promised the demise of O'Sullivan Construction unless it was able to arrange outside financing. By late March or early April of 1949, the government was apparently aware that Mannix was negotiating to take over O'Sullivan Construction. Naturally, those negotiations had to involve the Treasury Branch because it was O'Sullivan's major creditor.

In keeping with its new policy of credit restriction, in February the Branch began collecting O'Sullivan's receivables in a collateral account and it granted only $28,943 for payroll of the total financing of $98,00 asked for that month to cover January's operating expenses, $10,450 of the $45,450 requested for February, then a temporary advance of $20,000 to pay some accounts and obtain the release of some DPW receivables, then $27,983 of $43,00 requested in March, and $27,329 of

$52,000 asked for in April.[31] Although the Branch's new policy of partially restricting O'Sullivan's credit might not seem too onerous, its implications for O'Sullivan were catastrophic since the Branch advances did not even provide all the operational financing he required to complete his existing contract work. For the previous two years, thanks to the largesse of the Manning government, O'Sullivan Construction had been inflated by Treasury Branch loans and the earnings from highways contracts which were arranged for it by the DPW until it had become the second largest highway construction firm in the province. Now, it was just as surely being deflated. The two sources on which it had traditionally depended for operational financing, Branch loans and contract earnings, had both been taken away by the government. Inevitably, O'Sullivan had now to look to other sources for credit, and its outside debts grew, until by April 1949, it owed $56,522 for "pressing payables" alone.[32]

The end came quickly for O'Sullivan Construction. If, as has been argued, 459/47 was given to enable O'Sullivan to become a major player in the province's highway construction industry and 504/48 was the test contract which was to demonstrate O'Sullivan's ability to liquidate his loans, O'Sullivan had failed. His loans had totalled $242,429 when contract 459/47 was awarded and they totalled $319,694 in May 1949, by which time most of the earnings from both 459/47 and 504/48 had been applied to reduce the loans.[33] By then also, O'Sullivan had been offered a purchase option by Mannix which was due to expire after one month, on 6 June 1949. In the six to eight weeks during which O'Sullivan had been negotiating with Mannix before the agreement was reached, the government had continued to restrict O'Sullivan's credit although it had been aware that negotiations were taking place. Whether it would have continued to restrict O'Sullivan's credit if no investor had come forth is a mute question. It is unlikely that the Branch's policy of credit restriction through the spring of 1949 was in its own best interests, although it doubtless deteriorated O'Sullivan's bargaining power and helped Mannix negotiate a better agreement.

The eventual agreement saw O'Sullivan's loans once more balloon from $319,694 on 25 May 1949 to $600,748.72 when the agreement took force six days later. The increase in the value of the loan was to pay off O'Sullivan's outside debts. There is no record available of O'Sullivan's creditors but, presumably, if they had been left unpaid, it would have reflected badly on the Branch and, assuming the debts were not owed to Mannix, it would also have interfered with the operation of Mannix-O'Sullivan. The government still was unwilling to pay the political costs of its unfortunate involvement with O'Sullivan; it chose instead to accept the economic costs of the agreement between O'Sullivan and Mannix. Interestingly, O'Sullivan's capital assets, which, in January 1949, the auditor had estimated at $318,829 including Lethbridge Sand and Gravel, were, for the purposes of the agreement estimated at $523,000, although this included some rental equipment from Costello of Calgary valued at $38,000.[34] If nothing else, the inflated value of O'Sullivan's assets made the Branch's financial exposure seem less risky when the documents were publicly registered. In a memorandum to K.J. Hawkins, Percival's replacement, Olive later suggested the assets had had a depreciated value of $343,333.[35]

The actual offer from Mannix involved a rental purchase agreement covering O'Sullivan's equipment in return for guarantees respecting his debts from Fred Mannix Ltd. It required the agreement of the Treasury Branch which was given on 30 May 1949 and the agreement came into force on 31 May, the same day the government's original assignment on 504/48 was due to expire. Under the purchase agreement, a new company was formed -- Mannix-O'Sullivan Paving Company Ltd. -- and it was to apply the net earnings of O'Sullivan's equipment to the Branch loans and guarantee a payment of $130,000 by 31 December 1949 or reduce the total loan to $200,000, which ever was less.[36] The government had originally sought an agreement which would apply the profits before depreciation or tax provisions, rather than net earnings, but it conceded on this point to Mannix.[37] Any portion of the $130,000 which was paid would thereafter have to be repaid to Mannix-O'Sullivan before the loan would be further reduced. The Branch regarded Mannix very highly and seemed confident that he would provide the managerial expertise to turn Mannix-O'Sullivan into a profitable company. For his part, Mannix, presumably thanks to O'Sullivan, seems to have been aware that the DPW had been providing special help and he wanted that help extended to Mannix-O'Sullivan.

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The negotiated contracts which the government withheld from the Commission were central to its ability to hide the help it had extended to O'Sullivan but, when it came to its assistance to Mannix, the withheld contracts were less important to the government's strategy. In the first months after Mannix's takeover, the DPW had allocated three contracts to Mannix-O'Sullivan or Fred Mannix & Company as well as one, inexplicably, to O'Sullivan Construction. During the Commission proceedings, to obscure these four contracts the government did withhold two contracts and explain another as an extension. The fact that the government did not try to hide other contracts which it negotiated with Mannix did not mean it had nothing to hide; it simply was not necessary to withhold other contracts because both the willingness of the government witnesses to deceive the Commission and the restrictions placed on what evidence would be germane under the terms of reference blocked inquiry along lines which would have proved embarassing for the government. Although, after his takeover of O'Sullivan, Mannix's earnings showed an improvement which was apparently out of all proportion to the new assets he had acquired, the Commission never found out why.

The rapid escalation of Mannix's government contract earnings, mainly from highway construction, following his takeover of O'Sullivan had fueled Prowse's suspicions that the government's favour had passed to Mannix shortly after he took over O'Sullivan's Treasury Branch loan. (Table 6) Although the combined earnings of the O'Sullivan and Mannix interests actually dipped significantly from $1,367,970.24 in the fiscal year ending 31 March 1949 when they were still separate companies to $950,014.69 in the year ending 31 March 1950, which was the first year of Mannix-O'Sullivan's operation, the earnings rebounded

Table 6

Gross Earnings on All Government Contracts of Some Major Highway Construction Contractors

Contractor	1947	1948	1949	1950	1951	1952	1953	1954	1955
O'Sullivan Constr.	16,884.96	597,745.36	1,277,067.40	349,322.07					
Fred Mannix & Co.	127,671.76	460.00	90,902.84	260,117.59	588,328.72	1,175,520.67			
Mannix-O'Sullivan				340,575.03	1,239,739.01	1,240,390.38	2,244,219.39	2,863,815.83	1,244,652.14
Mannix (Fred) & Co. Ltd.							2,605,110.92		
Mannix Co. Ltd.								1,282,370.90	
Mannix Ltd.									1,254,593.17
Mannix & Western Constr.									121,748.59
Mannix-Robertson									380,149.71
W.C. Wells	361,431.36	195,463.41	485,802.20	1,018,690.88	2,400,279.02	1,238,453.46	1,171,766.12		2,363,239.24
Standard Gravel	692,155.65	2,400,756.54	2,256,142.14	1,410,405.20	1,737,068.54	2,297,188.76	3,748,175.34	2,686,306.36	2,971,545.12
Standard Gravel & Moulson									207,025.58
Standard Gravel & Shannon									410,920.97

All figures are based on a fiscal year ending 31 March. Therefore O'Sullivan 1949 contract earnings prior to the Mannix takeover appear in 1950.

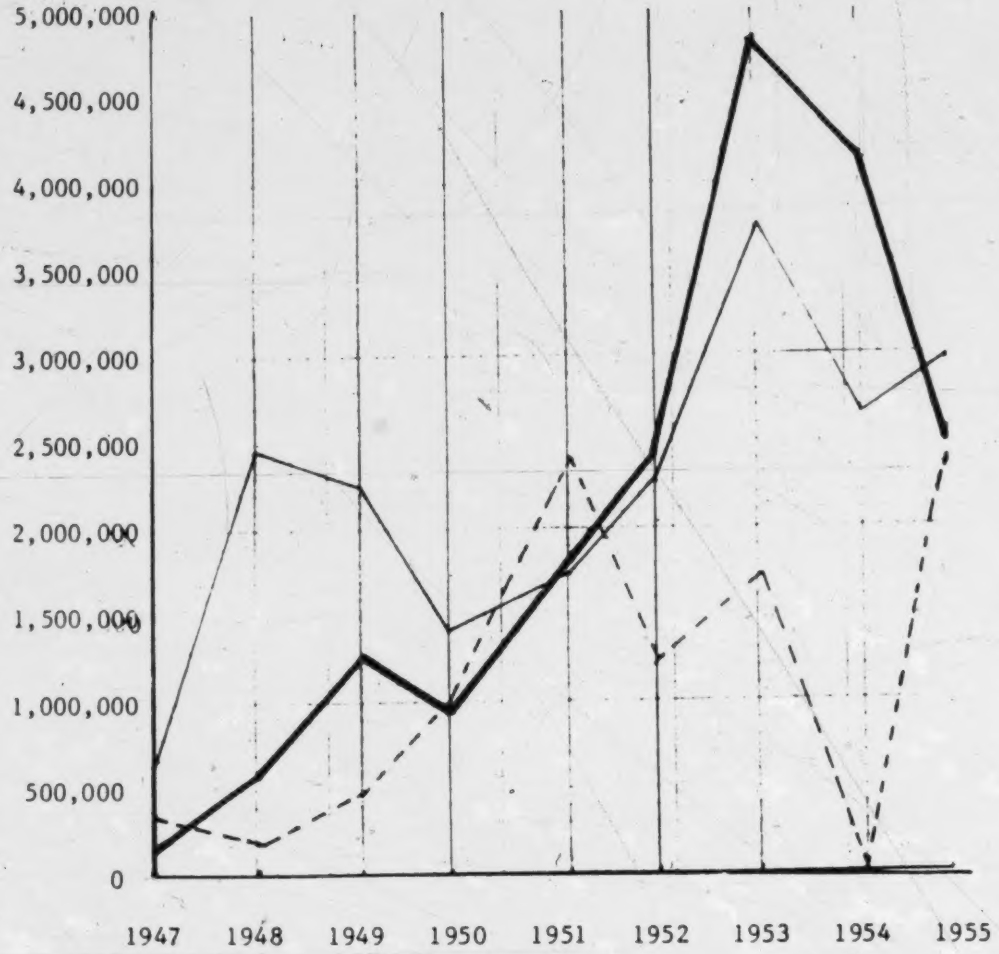
Source: Public Accounts of Alberta.

to $1,828,067.73 the following year. By 1952, Mannix was the leading highway contractor in the province in terms of provincial government contract earnings and in 1953 he became the first provincial contractor to top $4 million dollars in government earnings. In comparison, the earnings of Standard Gravel, which had been the leading highway construction firm for most of postwar years, remained static in the $1.5 million to $2.5 million range until 1953. (Table 6, Figure 1) Both Mannix and Standard were benefitting from the province's enlarged highway construction budget during this period and from the added emphasis on paved roads, but Mannix appeared to be benefitting more and Prowse attributed the difference to Mannix's Treasury Branch involvement.

When the Royal Commission began and Prowse and Milvain had their first actual opportunity to look at contract awards, there was even more reason to suspect the government was showing a preference to Mannix. The easiest way for the government to assist a particular contractor was to bypass the tender process by directly negotiating contracts and extensions of existing contracts with him. According to the government's statistics, Mannix's earnings from negotiated and extended contracts outstripped those of any of his rivals. (Table 9 shows the contracts which were presented to the Commission while Table 10 shows the same information adjusted to include the 1949 and 1950 contracts which the government was not required to present and the contracts it chose to withhold.) With the exception of 1950, the Mannix interests received roughly one-half or more of all negotiated and extended contracts combined, from the time of Mannix's takeover of

Figure 1

Comparison of Earnings*



O´Sullivan Construction and Mannix interests** ▬▬
Standard Gravel & Surfacing ——
W.C.Wells - - -

*This figure presents gross earnings on all government contracts, however the majority of the earnings are from main highway construction contracts.

**O´Sullivan and Mannix interests earnings are plotted on the basis of O´Sullivan´s earnings only until 1950, the first year in which Mannix´s involvement is a factor. For 1950 - 1955 inclusive, all Mannix companies are included (Fred Mannix, Mannix Ltd., Mannix-O´Sullivan).

Source: Public Accounts of Alberta

Table 7

Province of Alberta Budget for Main Highway Construction

Year	Main Highways ($)	Trans Canada* ($)
1947	8,800,000.00	
1948	8,800,000.00	
1949	9,174,200.00	
1950	11,730,000.00	2,000,000.00
1951	13,538,300.00	4,000,000.00
1952	17,400,000.00	5,000,000.00
1953	26,152,770.00	6,336,580.00
1954	30,329,010.00	6,409,980.00
1955	29,046,900.00	6,037,665.00

* Approximately 1/2 of the budgetted Trans Canada highway expenditures were reimbursed by the federal government.

Source: Budget Speeches of the Alberta Provincial Treasurer, 1947 - 1955. Edmonton. A. Scnitka, Queen's Printer.

Table 8

Province of Alberta Expenditures on Main Highway Construction

Year	Main Highways ($)	Trans Canada ($)
1947	4,057,138.90	
1948	8,912,173.12	
1949	11,328,171.68	
1950	10,291,367.80	
1951	13,699,934.17	341,344.73
1952	12,933,518.53	2,220,665.73
1953	21,688,462.31	5,027,421.96
1954	26,189,904.35	5,057,003.88
1955	27,445,817.16	3,416,464.63

Source: Public Accounts of Alberta

Table 9

Gross Value of Main Highway Construction Awards for Negotiated Contracts and Extensions, from 31 May 1949 to 1955, as presented to the Royal Commission

	Negotiated Contracts			Extended Contracts				
Year	Gross value* negotiated contracts	Gross value Hannix** share (%)	Gross value nearest competitor (contractor)	Gross value extended contracts	Gross value Hannix share (%	Gross value nearest competitor (contractor)	Combined Value	Hannix share combined value
1949***		151,976.54			33,910.50			185,887.04
1950***		0.00			0.00			0.00
1951	1,608,275.69	1,341,878.53 (83.4%)	144,000.00 (Western Constr.)	439,687.62	240,396.50 (54.7%)	126,656.45 (Mtnl. Paving)	2,047,963.31	1,582,275.03 (77.3%)
1952	19,612.60	0.00 (0%)	19,612.60 (Gallelli & Sons)	604,197.49	323,064.74 (53.5%)	234,490.50 (Western Const.)	623,810.09	323,064.74 (51.8%)
1953	754,914.33	714,725.00 (94.7%)	40,189.33 (Chennels Constr.)	349,860.11	138,525.00 (39.6%)	62,862.00 (N.A. Road.)	1,104,774.44	853,250.00 (77.2%)
1954	0.00	0.00 (0%)	0.00	112,902.19	0.00 (0.0%)	112,902.19 (New West)	112,902.19	0.00 (0.0%)
1955	0.00	0.00 (0%)	0.00	47,759.32	0.00 (0.0%)	47,759.32	47,759.32	0.00 (0.0%)

* All statistics are based on negotiated dollar values rather than actual paid values. Final costs on many of the contracts are not readily available. For final costs on the Hannix company contracts, see Appendix 5.

**The gross value of Hannix's negotiated and extended contracts includes the earnings of Hanni-O'Sullivan, Fred Hannix Co., and Hannix Ltd.

*** 1949 and 1950 contracts were not shown to the Royal Commission unless the contractor was involved with the Treasury Branch

Source: 83.197 Provincial Archives of Alberta.

Table 10

Gross Value of Main Highway Construction Awards for Negotiated Contracts and Extensions, from 31 May 1949 to 1955, Including Withheld Contracts

	Negotiated Contracts			Extended Contracts				
Year	Gross value* negotiated contracts	Gross value Hannix** share (%)	Gross value nearest competitor (contractor)	Gross value extended contracts	Gross value Hannix share (%	Gross value nearest competitor (contractor)	Combined Value	Hannix share combined value
1949	323,536.99	175,099.41 (54.1%)	55,453.80 (Thordarson Const.)	98,239.05	33,910.50 (34.5%)	42,955.00 (Western Const.)	421,776.04	209,009.91 (49.6%)
1950	58,193.45	0.00 (0.0%)	44,220.45 (Standard Gravel)	235,332.09	0.00 (0.0%)	61,354.98 (Assiniboia)	293,525.54	0.00 (0.0%)
1951	1,895,627.90	1,520,480.74 (80.2%)	108,750.00 (Arkinstall)	439,687.62	240,396.50 (54.7%)	126,656.45 (Ntnl. Paving)	2,335,315.52	1,760,877.24 (75.4%)
1952	39,612.60	0.00 (0%)	20,000.00 (D.K. Constr.)	604,197.62	323,064 74 (53.5%)	234,490.50 (Western Const.)	643,810.22	323,064.74 (50.2%)
1953	769,614.33	714,725.00 (92.9%)	40,189.33 (Chennels Constr.)	349,860.11	138,525.00 (39.6%)	62,862.00 (N.A. Road.)	1,119,474.44	853,250.00 (76.2%)
1954	0.00	0.00 (0.0%)	0.00	112,902.19	0.00 (0.0%)	112,902.19 (New West)	112,902.19	0.00 (0.0%)
1955	0.00	0.00 (0.0%)	0.00	47,759.32	0.00 (0.0%)	47,759.32	47,759.32	0.00 (0.0%)

* All statistics are based on negotiated dollar values rather than actual paid values, except for some contracts where no negotiated value is available (see Table 4). For final costs on the Hannix company contracts, see Appendix 5.

**The gross value of Hannix's negotiated and extended contracts includes the earnings of Hanni-O'Sullivan, Fred Hannix Co., and Hannix Ltd.

Source: 83.197 Provincial Archives of Alberta.

O'Sullivan until 1954 when these contracts ceased to be a significant factor in highway construction awards. In the same period, Mannix's share of all main highway construction work ranged from about 20% to 25%, except in 1952 when it increased to 32.2%.[38] Although Prowse and Milvain were certainly aware that the Mannix interests were receiving a disproportionate share of allocated contracts and although they believed that allocating contracts was the means the government used to assist contractors with Treasury Branch loans, that knowledge was of only marginal usefulness when it came to convincing the Commission. Even had they been aware of the Mannix-O'Sullivan contracts the government withheld from the Commission, they would have had a difficult time establishing a persuasive case showing government preference to Mannix.

From one point of view, the Commission exhibits on main highway construction contracts appeared to contradict the fundamental premise behind Prowse's explanation of why the government had assisted Mannix -- namely, that the government's assistance was in response to Mannix's assumption of O'Sullivan's indebtedness. Mannix had taken over O'Sullivan on 31 May 1949 but Mannix had benefitted not at all from negotiated and extended contracts in 1950. (Tables 9 and 10) If the government wanted to help Mannix pay off those loans, why would it almost immediately stop allocating contracts to Mannix and why would Mannix's gross government earnings also drop in 1950? (Table 6) Although Mannix's share of allocated contracts escalated dramatically in 1951, most of these awards were made after Mannix had paid off the O'Sullivan loan on 12 June 1951. (Tables 11 and 12) Prowse believed

Table 11

Contracts Negotiated by the Government for Main Highways Construction After Mannix´s Takeover of O´Sullivan

			Negotiated Contracts	
Award Date	Contractor	Contract Number	Negotiated Value ($)	Amount Paid ($)
20 June 49	W.C. Wells	543/49neg.	18,948.00	?
27 June 49	Standard Gravel	548/49neg.	20,316.45	?
13 July 49	O´Sullivan Constr.	551/49neg.*		6,322.87
16 July 49	Thordarson Constr.	552/49neg.*		55,453.80
26 Aug. 49	Mannix-O´Sullivan	557/49neg.*		16,800.00
10 Aug. 49	R.H. Smith	559/49neg.	40,119.00	?
30 Aug. 49	Mannix-O´Sullivan	562/49neg.	151,976.54	150,677.55
19 Sept. 49	Mallett & Board	564/49neg.	13,600.29	?
13 June 50	Standard Gravel	601/50neg.	44,220.45	?
n.d.	W.C. Wells	619/50neg.	13,973.00	11,766.10
n.d.	C.W. Arkinstall	624/51neg.*	108,750.00	16,259.58
19 Apr. 51	Mannix-O´Sullivan	625/51neg.*	79,733.13	
Oct. 51	Mannix-O´Sullivan	625/51amend.*	98,869.08	165,796.54
12 June 51	Mannix Ltd.	651/51neg.	182,219.70	217,507.25
28 June 51	Percy Willoughby	653/51neg.	9,498.16	9,896.52
7 Aug. 51	Mannix Ltd.	660/51neg.	500,598.06	532,500.25
15 Aug. 51	Mannix-O´Sullivan	661/51neg.	416,448.27	411,534.01
27 Aug. 51	Mannix-O´Sullivan	662/51neg.	103,912.50	31,430.12
24 Sept. 51	New West Const.	667/51neg.	112,900.00	140,799.30
5 Dec. 51	Mannix Ltd.	672/51neg.	138,700.00	151,071.28
5 Dec. 51	Western Constr.	673/51neg.	144,000.00	147,970.00
n.d.	D.K. Construction	703/52neg.*	20,000.00	11,952.00
15 Oct. 52	Gallelli & Sons	704/52neg.**	19,612.60	32,096.70
24 June 53	Mannix Ltd.	748/53neg.	714,725.00	1,027,820.00***
24 July 53	Chennells Constr.	752/53neg.	40,189.33	79,139.05
12 Nov. 53	Cleve Construction	762/53neg.*	14,700.00	15,717.90

* Contracts which were withheld from the Royal Commission.

** 704/52 was negotiated after no bids were submitted when it was originally advertised.

*** The final amount paid on Mannix Ltd. contract 748/53 was withheld from the Commission.

Source: 83.197 Provincial Archives of Alberta.

Table 12

Main Highway Construction Contracts Extended by the Manning Government After Mannix's Takeover of O'Sullivan Construction

Award Date	Contractor	Contract Number	Nature of Original Contract	Negotiated Value ($)	Amount Paid ($)
31 Aug. 49	Western Constr.	531/49ext.	low bid	42,955.00	?
29 Aug. 49	F.W. Lamb & Sons	533/49ext.	low bid	11,109.00	?
25 May 50	J.E. Layden	545/49ext.	low bid	22,691.50	?
19 Oct. 49	Field & Davis	546/49ext.	low bid	10,264.55	?
8 Sept. 49	Fred Mannix & Co.	563/49ext.	?	33,910.50	25,782.92
3 Oct. 50	National Paving	576/50ext.	low bid	49,965.00	42,591.17
13 July 50	Assiniboia Eng.	591/50ext.	low bid	61,354.98	63,323.02
31 July 50	W.C. Wells	579/50ext.	low bid	30,535.11	?
3 Aug. 50	F.R. Gibbs	577/50ext.	low bid	20,506.67	?
25 Aug. 50	R.H. Smith	587/50ext.	low bid	25,069.99	19,239.40
17 Oct. 50	Thode Constr.	596/50ext.	low bid	16,057.61	?
26 Oct. 50	McKelvie Constr.	613/50ext.	low bid	9,151.23	?
22 Jan. 51	Mannix-O'Sullivan	592/50ext.	low bid	57,375.00	57,419.59
5 July 51	National Paving	631/51ext.	low bid	126,656.45	161,958.86
1 Aug. 51	Mannix Ltd.	651/51ext.	neg.	40,619.00	34,371.33
27 Aug. 51	Mallett Contract.	638/51ext.	low bid	36,390.03	36,501.50
27 Aug. 51	Standard Gravel	645/51ext.	low bid	36,244.64	40,679.85
19 Oct. 51	Mannix Ltd.	643/51ext.1	low bid	142,402.50	290,943.66
31 May 52	F.R. Gibos	654/51ext.	low bid	46,642.25	45,387.20
17 June 52	Mannix Ltd.	643/51ext.2	low bid	211,557.50	475,071.30
19 June 52	Western Constr.	647/51ext.	low bid	234,490.50	321,008.01
7 Aug. 52	Mannix Ltd.	660/51ext.1	neg.	106,757.24	94,975.79
15 Oct. 52	Mannix Ltd.	660/51ext.2	neg.	4,750.00	4220.00
20 May 53	Mannix Ltd.	690/52ext.	low bid	138,525.00	196,092.47
28 Sept. 53	Evans Constr.	721/53ext.	low bid	57,341.50	65,691.16
17 Sept. 53	N.A. Rdbuilders	728/53ext.	low bid	62,862.00	67,595.09
22 Oct. 53	Park Bros.	732/53ext.	low bid	52,800.00	89,505.70
22 Oct. 53	Chennells	752/53ext.*	neg.	38,331.61	?
5 May 54	F.W. Lamb	726/53ext.	low bid	138,274.80	242,129.58
10 May 54	New West	733/53ext.	low bid	112,902.19	?
15 Aug. 55	W.C. Wells	853/55ext.	low bid	47,759.32	?

* 752/53 was an experimental contract negotiated with the only contractor with the proper equipment.

Source: 83.197 Provincial Archives of Alberta.

that after this date the government helped Mannix because of the Alberta Coal Company loan and the Sparling loan but, at this point, the terms of reference of the Commission blocked further inquiry. Milvain was forced to argue that the government had shown a preference on the basis of the Mannix-O'Sullivan and Fred Mannix & Company contracts exclusively. These two companies received $867,739.52 in negotiated contracts and $91,285.50 in extensions from 31 May 1949 through 1955. The terms of reference prevented Milvain from linking those allocated contracts to the $1,536,242.76 in negotiated contracts and $644,611.24 in extensions provided for Mannix Ltd. in the same period, which actually comprised 69.5% of all contracts allocated to the Mannix interests.[39]

There is an explanation for the government's apparent abandonment of Mannix in 1950 and its renewal of support in 1951. At first, the agreement reached by the Treasury Branch, O'Sullivan and Mannix did result in the reinstatement of support from the Department of Public Works with the favored means of allocating contracts again being direct negotiation. The new company of Mannix-O'Sullivan, soon after its incorporation, was awarded two contracts through negotiation, 557/49, which was withheld from the Royal Commission, and 562/49, which was shown to the Commission. In addition, Fred Mannix & Company was given 563/49 which was categorized as an extended contract when it was shown to the Commission. 562/49 was a paving contract which paid $150,677.55 and the government explained to the Commission that it had been negotiated with Mannix-O'Sullivan, rather than put to tender, because all the other contractors with paving equipment were busy in August

1949 when it was awarded. Whether the paving machines of the other contractors were busy or whether this was simply a convenient excuse as in the case of 504/48 is not completely certain. However, it was likely the latter, since DPW Construction Reports show that work on 562/49 did not even reach the preparatory stage of laying a gravel base course until May of 1950.[40]

Indeed, the major problem in assessing most of the government's exhibits to the Commission is that, as has already been established, the government intentionally omitted and falsified information to deceive the inquiry. Where the worksheets used in preparing the exhibits still exist, it is possible to determine whether or not the exhibits are accurate but, unfortunately, most of the worksheets regarding individual Mannix contracts were not saved. Nevertheless, the government's intention to deceive the Commission about Mannix's contracts as it had about O'Sullivan's contracts still plainly existed as is shown by its decision to withhold Mannix-O'Sullivan contracts 557/49, 625/51 and 625/51amended. (Table 4) It is sometimes possible to cross reference the information in the government's general exhibits detailing all annual contract awards with the worksheets used in preparing those exhibits to determine whether its explanations of specific Mannix contracts were accurate. For instance, the government explained Mannix-O'Sullivan contract 563/49 as an extension which had been arranged, with the same unit prices as in the original contract, only because it was too late in the season to advertise.[41] However, there was no explanation of which original contract 563/49 was extending and the worksheets prepared by the DPW for all 1949 contracts indicate that 563/49 was actually a negotiated contract, not an extension. The Commission's terms of reference never required the government to present evidence on all 1949 contracts. Had the Commission seen this evidence, it would have realized that 10 contracts were awarded to other contractors through the normal procedure of advertising for tenders after it was supposedly too late in the season to advertise 563/49.[42]

The most important evidence showing that the government was intentionally deceiving the Commission about the Mannix contracts as it had about the O'Sullivan contracts is provided, not in the government's exhibits to the Commission but in a series of memoes written in 1949 and 1950 from Olive to Campbell Fraser, the new chairman of the Loans Committee, from Olive to K.J. Hawkins, the new Deputy Treasury, from Fraser to Manning, and from Manning's office to the minister of Public Works, D.B. MacMillan. Not surprisingly, the viewpoint of the Treasury Branch predominates in these letters but the concerns and requests of Mannix and Manning are also discernible. The two never seem to have met to discuss the issue of government support during this period; instead, negotiations were conducted between Mannix, or his representatives, and Olive, who represented the government's interests. The memoes explain why the government, after initially assisting Mannix-O'Sullivan and Fred Mannix & Company by negotiating three contracts in August and early September of 1949, then withdrew its support. They also provide an accurate forecast of the type of assistance Mannix eventually received when government support was renewed.

In simple terms, neither Mannix nor Manning was very happy with the other's performance following the takeover of O'Sullivan. The dispute which developed between them resulted in the withdrawal of DPW support from the fall of 1949 until a compromise was reached during the spring and summer of 1950. By then, most of the highway construction contracts for 1950 had already been put to tender so that the government's most significant help to Mannix came with the 1951 construction season. The assistance given was basically that asked for by the Mannix interests and by Olive on their behalf: the bypassing of the tender process through the provision of negotiated and extended contracts to help Mannix become established in the northern part of the province.

According to Fraser's memorandum to Manning on 29 November 1949, Mannix had entered into the agreement by which he took responsibility for O'Sullivan's loans in the expectation that his provincial contracts for the year would amount to $1,742,500, "with an estimated cash surplus of $214,000 and [Fraser noted] apparently at that time there was nothing to suggest that those figures were out of line." Fraser pointed out that, instead of Mannix receiving his anticipated contract work, the consolidated financial statement of Mannix-O'Sullivan for the five month period ending 31 October 1949 showed a net profit of only $49,190.96 on less than $600,000 worth of contracts.[43] It is not known whether the allocation of $1,742,000 worth of contracts was discussed by Mannix and Olive during the negotiations for the takeover of O'Sullivan, but it is noteworthy that $214,000 in projected profits from those earnings would have been sufficient for Mannix to reduce the total indebtedness to less than $200,000, as per the agreement.[44] Thus, it appears Mannix expected sufficient contract work that he would not have to fulfill the guarantee of Fred Mannix & Company to provide $130,000 if the loan was not reduced to $200,000. The $600,000 worth of contracts mentioned in the letter represented the combined value of Mannix-O'Sullivan and Fred Mannix & Company main highways construction contracts and bridge contracts, together with the unfinished portion of O'Sullivan's contract work which was completed by Mannix.[45]

Enclosed with Fraser's memo to Manning was a letter which Olive had written to Hawkins a few days before. Olive's letter had, in turn, been sparked by a vist from Fred Mannix. Olive wrote that although Mannix had[46]

> stated it was the desire of the Company to continue with the present Agreement, he was apprehensive in view of the minor nature of the contracts received through the Provincial Government this year, as to the ultimate success of the Company operations. He intimated also that on the continued basis of this year's operations, it will be practically impossible to pay off the debt, and that he would not care to be placed in the position at the end of next season of cancelling the Agreement and turning the machinery back to O'Sullivan in a further deteriorated condition.

According to Fraser and Olive then, although Mannix did not specify how he was to be given more provincial contracts, he wanted those contracts and he was not above hinting that if he did not receive more work he would exercise his option to cancel the agreement.

In representing the Treasury Branch's interests, Olive's immediate worry was that the O'Sullivan loan balance as of 31 October stood at $403,292, with receivables of some $145,525, which still left the potential for a very hefty loss should the agreement fall through. Mannix's visit was late in the season and was obviously undertaken in the hope that an understanding could be reached before the 1950 contracts were put to tender. He faced the prospect of having to advance some $80,000 by the end of the year to fulfill his guarantee on the loan. For his part, Olive suggested that, if reductions on the loan were not forthcoming from the 1950 contract work, the depreciation of O'Sullivan's machinery, particularly since Mannix was apparently allowing it to deteriorate, combined with the possibility that Mannix might opt out of the agreement, would leave the Branch in possession of securities on its loan which were seriously depleted in value.

To Olive, both the problem and the solution were simple. He pointed out to Hawkins that Mannix-O'Sullivan's earnings were disappointing solely because their paving equipment had been idle during the height of the construction season, from 5 July when contract 504/48 was completed until negotiated contract 562/49 was given the company at the end of the summer. In the interval there had been no new paving contracts let by the DPW. As a solution, he argued that for the next two seasons "if Government paving work is available, the full co-operation of the Department of Public Works should be solicited in an endeavour to keep the machinery steadily engaged. It is realized, of course, that tenders on contracts submitted by the Company would be in line and comparable with tenders filed by other contractors."[47] Although he did not say so, the only way that the DPW's cooperation would be necessary, was if it bypassed other contractors and negotiated directly with Mannix-O'Sullivan, on the basis of prices comparable to tender values on similar projects, or if the DPW advertised a contract and made Mannix-O'Sullivan's tender comparable after examining the tenders of other contractors. In more direct terms, Olive was asking the DPW to rig contracts for Mannix-O'Sullivan in order to bail out the Treasury Branch.

When Fraser forwarded Olive's memo to Manning, his covering letter cloaked the request for DPW assistance with a more polite rationalization. As Fraser explained:

> the Province of Alberta is facing the possible loss of a substantial sum of money, but the Province is in a position to prevent any loss being incurred by using reasonable means that are well within its power. This is not a case of the Department of Public Works coming to the rescue of the Treasury Branch, it is purely a case of the Province of Alberta acting in a manner to protect itself against an unnecessary loss.

He hastened to add that the Mannix interests were not asking for "favours", but only the "opportunity of obtaining a reasonable proportion of the paving and other work available." Since there were then four paving machines in the province, Fraser reasoned that a "fair distribution" of paving work "would provide a guarantee of the continuous use of the O'Sullivan equipment," and he asked if Mannix could be advised "that a reasonable portion of paving and sundry contracts may be available for bids by the Mannix interests."[48] Although Fraser did not ask Manning directly to notify the DPW to rig contracts for the Mannix interests, again, that was the only way a fair distribution of contract work could be arranged or that Mannix could be given advance notice that he would receive a reasonable portion of contracts.

Judging partly from subsequent memoes,[49] Premier Manning did not appreciate Mannix's scarcely veiled threat that if he did not receive sufficient contracts to pay off O'Sullivan's obligation from the earnings of Mannix-O'Sullivan he would opt out of the agreement, nor did he like the fact that Mannix was allowing O'Sullivan's equipment to deteriorate. Although it seems likely that a verbal understanding that Mannix would receive sufficient contract work had accompanied the original agreement of 31 May 1949, Manning resented Mannix's subsequent attitude and the implication that he had the right to those additional provincial contracts. If he wanted the contracts he would have to compromise.

The meeting of November 1949 between Fred Mannix and Olive resulted in the establishment of the basic bargaining positions of Mannix and the government. The conditions of a satisfactory compromise were then apparently worked out during meetings in March and July of 1950. Each of these negotiating meetings was initiated by the visit of Fred Mannix, or O'Sullivan and Costello on Mannix's behalf, to Superintendent Olive, who relayed Mannix's concerns to Fraser. Fraser then relayed them to Manning. In broad outline, the compromise which was eventually reached required that Mannix meet three conditions if DPW help was to be restored. First, he had to fulfill his obligations on behalf of O'Sullivan to the Treasury Branch. Second, he had to overhaul O'Sullivan's equipment and keep it in good repair. Third, it was clearly expected that Mannix change his attitude and be less aggressive in his expectations of government help. For his part, Manning eventually agreed to Mannix's requests for DPW assistance.

Mannix's second call on Olive in March 1950 was made in the hope that contract work for Mannix-O'Sullivan could still be arranged for the 1950 season. According to Olive, Mannix had initiated some of the compromises the government was demanding. Mannix's overpayment on the O'Sullivan account amounted to $175,000, a figure which included the fulfillment of the $130,000 guarantee. Of course, under the terms of the agreement, the assignment of rentals from O'Sullivan's equipment would then go to Mannix until his advances on the O'Sullivan account were liquidated. Nevertheless, as of 30 January 1950, the loans had been reduced to $280,685.44. As well, a Mannix representative had earlier advised Olive that the O'Sullivan machinery had all been overhauled and was in "excellent condition to carry on for the season's work." Lastly, negotiations were taking place to sell Lethbridge Sand & Gravel for $100,000 which would result in a $50,000 reduction in the Treasury Branch loan, to $230,685, and a $50,000 reduction in O'Sullivan's debt to Mannix, to $125,000.[50]

In return, the Mannix interests had certain expectations. Mannix's representative had informed Olive that they anticipated a busy season for the O'Sullivan equipment with an estimated profit of $300,000 by the year's end which, Olive noted, would reduce the Branch loan "to within a definite margin of safety." Since the DPW had not advertised for tenders on any of its 1950 contract work at this time, it is not clear how Mannix's representative could have estimated the company's profit. Mannix was expecting a lot. To make that kind of profit, Mannix-O'Sullivan would have had to realize an 11% profit on one-fifth of all the highway construction work projected for the province in Manning's budget speech. This was a tremendous increase, considering there had been approximately two dozen contractors engaged in main highway construction the previous year and Fred Mannix & Company, O'Sullivan and Mannix-O'Sullivan in combination had undertaken only one-twentieth of the budgeted highway construction work.[51] Olive believed that Mannix wanted to become "firmly established in Northern Alberta" and was "making every effort to place the new Company [Mannix-O'Sullivan] on a sound financial basis" with that end in mind.[52] This time Olive not only suggested to Fraser that it was vital to keep the O'Sullivan paving equipment busy by allocating one-fourth of the 400 miles the DPW was planning to pave in 1950, but also suggested the allocation of three specific contracts which Mannix-O'Sullivan wanted, although other similar projects would be satisfactory. Olive was also more direct about how the DPW was to arrange a fair distribution of paving contracts and suggested the "possibility ... that the Government in place of calling for the ordinary tenders on such work, could allocate any projects they saw fit under an extension of the Company's present contract. This latter arrangement would assure them of continuous work and would reduce to a minimum any long moves for the outfit during the paving season."[53]

Although when Fraser forwarded Olive's memo to Manning, he stressed the change in Mannix's attitude since November 1949 and drew particular attention to Olive's recommendation that Mannix-O'Sullivan be allocated "certain projects under an extension of the Company's existing contract,"[54] the Manning government was not yet ready to extend its full assistance to Mannix. Mannix-O'Sullivan was not given the contracts Olive had specified, nor for that matter did the DPW negotiate any contracts with the company in 1950. However, when the DPW first started advertising for tenders on its 1950 contracts, Mannix-O'Sullivan did enjoy considerable success, soon winning two paving contracts, 575/50 and 592/50, by submitting low bids.

Mannix-O'Sullivan's success in winning these two contracts may have been partly attributable to the fact that the government's paving program increased dramatically from 1949 to 1950, The DPW advertised 7 paving contracts which were won on bids totalling $889,429 in 1949 and 9 contracts worth $4,318,398 in 1950. The extra work was partly a reflection of the start of construction on the Trans Canada highway in Alberta in 1950. Although there was at least one additional paving machine in the province, owned by National Paving, most paving contracts were put to tender in early spring so the odds of winning at least one contract were enhanced.[55] It is also possible that the government, by the spring, was beginning to give Mannix-O'Sullivan some assistance in return for Mannix's changing attitude. Olive, for instance, recommended to the Loans Committee in March that a reduction in interest rate on the O'Sullivan loan from 5% to 4% be made.[56] Although it should be stressed that no direct evidence has been discovered to support the contention, the DPW may also have helped

Mannix-O'Sullivan win either or both of paving contracts 575/50 and 592/50 with low bids.

In certain respects, the circumstances in which the DPW had arranged for O'Sullivan to have contract 459/47 paralleled those which saw Mannix-O'Sullivan win 592/50. The DPW aid to O'Sullivan had begun by allowing O'Sullivan alternate bids on contracts 443/47 and 459/47 just before it began allocating work through negotiated contracts. Basically the same government personnel were still involved in opening tenders in May 1950 when 592/50 was awarded and the DPW was again about to start allocating work through negotiated contracts and extensions to Mannix-O'Sullivan and Mannix Ltd. 459/47 was supposedly won on a low bid of $257,623, but thanks to changes in the contract it turned into an overbid worth $736,444 and was later extended by contract 504/48 which paid $664,589. 459/47 was the foundation on which the DPW's assistance to O'Sullivan was built. In much the same way 592/50 was won on a bid of $442,071 but it eventually paid $782,729, then was extended for an additional $57,419 and placed Mannix-O'Sullivan in a position to bid and win other contracts as well as to be given various negotiated and extended contracts worth over one million dollars. 592/50 was a test of Mannix's goodwill; it was also the contract which began the DPW's second round of support for Mannix-O'Sullivan.

Regardless of whether the DPW assisted Mannix-O'Sullivan to win 592/50 or whether it was won legitimately on a low bid, the result for Mannix was the same. As Fraser observed to Manning in July 1950, "Mannix's attitude towards us has improved and well it might."[57] In fact, Mannix's willingness to meet the government's conditions was about to be rewarded by Manning's agreement to reinstate the government's preference. The quest for Manning's approval again originated with a call on Superintendent Olive in early July, this time by O'Sullivan and Costello on behalf of Mannix-O'Sullivan. Olive then wrote a memo to Fraser who forwarded it to Manning. On the 17th of July 1950, Manning forwarded Olive's and Fraser's requests that the DPW assist Mannix-O'Sullivan to D.B. MacMillan, the Minister of Public Works.[58]

When Manning forwarded Olive's and Fraser's letters to MacMillan, the covering letter simply stated it was for the minister's "information," but it would have been impossible for MacMillan to mistake the meaning of the enclosed documents: Manning was authorizing the DPW to allocate work to Mannix-O'Sullivan. It must be remembered that Manning was actually authorizing the reinstatement of an ongoing policy of DPW assistance to a Treasury Branch debtor. The DPW had been rigging contracts for years so MacMillan was completely familiar with the nature of the assistance being requested--he just needed to know the parameters of the assistance which was to be provided. In his memo, Olive praised Mannix's successful management of Mannix-O'Sullivan, detailed the company's progress to date on contracts 575/50 and 592/50 and particularly requested the allocation of contract work in the late fall and early spring so that the company's equipment would not lie idle. Manning or his office drew MacMillan's attention to the latter comment with double black lines in the margin. In addition, Olive suggested that O'Sullivan particularly wanted the 41 mile paving contract from Gleichen to Bassano.[59] That contract was part of the Trans Canada Highway and Olive's memo actually represented the second time that he had lobbied Fraser regarding the allocation of the Trans Canada Highway contracts to Mannix-O'Sullivan.[60] According to Olive, O'Sullivan and Costello were "extremely anxious to obtain a goodly portion of this work and were in hopes of arranging the matter through negotiation." This particular request was turned down. When Manning forwarded Olive's memo to MacMillan, beside the reference to negotiating Trans Canada contracts was the pencilled notation "Tenders only", apparently in Manning's handwriting. The recently concluded agreement between the Alberta and federal governments had specified that the Trans Canada Highway would be constructed "by awarding contracts pursuant to tenders invited by public advertisement,"[61] and Manning was reminding MacMillan that there was to be no deviation from this practice.[62]

Thanks to these few marginal notations, the DPW had all the guidelines it required. There was to be no tampering with Trans Canada Highway contracts, but there was no prohibition against negotiating other contracts. This had been the department's basic means of allocating work to favoured contractors in the past and it continued to be used to help Mannix-O'Sullivan and, later, Mannix Ltd. As Mannix-O'Sullivan completed its contract work late in 1950, the DPW was to provide additional work. As well, two suggestions from Olive's earlier memoes were adopted by the DPW. First, to minimize both costly delays due to idle men and equipment and the expensive transportation of equipment, the department began providing extensions on contracts at an unequalled rate. Second, most of the assigned work was in the northern part of the province, where Mannix had stated he wanted Mannix-O'Sullivan to become established. Operating within these guidelines, the DPW and, after it was formed, the Department of Highways allocated work to Mannix-O'Sullivan and Mannix Ltd. which soon dwarfed the assistance they had given to O'Sullivan.

The assistance which the government gave to the Mannix interests after Manning's memo of July 17th can be dealt with quite briefly. To simplify the analysis, all the Mannix companies will be considered together. As mentioned in Chapter 4, the corporate links between the Mannix companies and Mannix's connections with the Treasury Branch through the O'Sullivan and Alberta Coal Company loans -- and later the Sparling loan -- justify this approach. The Commission ruled that Fred Mannix & Co. Ltd. but not Mannix Ltd. would be included among those companies with or responsible for Treasury Branch debts but, in fact, Mannix Ltd. took the place of Fred Mannix & Co. Ltd. in the highway construction industry. Mannix Ltd. was responsible for the Sparling loan, even if the Commission chose to ignore this fact, and was a Treasury Branch borrowing customer itself by the time of the Commission hearings, although the Commission was not informed of Mannix Ltd.'s Branch loan. Lastly, the Public Accounts of Alberta indicate that the various Mannix companies were treated more or less as a single corporate entity. As will be discussed shortly, the DPW also sometimes treated the Mannix companies interchangeably when it allocated contracts.

Manning had drawn attention to Olive's request that Mannix-O'Sullivan be provided with contract work over the lean winter months and in the early spring[63] and the DPW obliged by providing an extension to contract 592/50 on 22 January 1951 (Table 13). In the spring, it provided 625/51, which was a stockpiling contract. It later amended this contract to provide additional work the following fall. When the government was compiling its Commission exhibits, it omitted both 625/51 and 625/51amended. It rationalized that the contracts were "for making gravel available" and were therefore "so different" from other contracts that they should not be included.[64] In fact, other stockpiling contracts were included -- the omissions were to hide the government's preference for Mannix-O'Sullivan.

Olive had also relayed requests from the Mannix interests that they be given additional contract work either through negotiation or through extensions of existing contracts.[65] No negotiated or extended contracts had been awarded to the Mannix companies during the period of the disagreement with Manning, from the fall of 1949 to the summer of 1950 (Table 11, Table 12). That disagreement had been resolved after most of the 1950 contracts were awarded and, as a result, Mannix did not begin to benefit from allocated contracts until 592/50ext. was provided in January 1951. It is significant that once Manning reinstated the preference, the lobbying of Olive by Mannix stopped even though there was a considerable delay before the Mannix interests received any allocated contracts. Mannix must have known about Manning's memo and it seems quite possible that the actual contracts given to the Mannix companies were worked out in consultation between

Table 13

Negotiated and Extended Contracts Awarded to the Mannix interests after 17 July 1950

		Negotiated Contracts		Extensions	
Award Date	Contract Number	Negotiated Value ($)	Amount Paid ($)	Negotiated Value	Amount Paid ($)
22 Jan. 51	592/50ext.			57,375.00	57,419.59
19 Apr. 51	625/51neg.	79,733.13			
Oct. 51	625/51amend.	98,869.08	165,796.54		
23 June 51	651/51neg.	182,219.70	217,507.25		
1 Aug. 51	651/51ext.			40,619.00	34,371.33
17 Aug. 51	660/51neg.	500,598.06	532,500.25		
27 Aug. 51	661/51neg.	416,448.27	411,534.01		
8 Sept. 51	662/51neg.	103,912.50	31,430.12		
19 Oct. 51	643/51ext.1			142,402.50	290,943.66
17 Dec. 51	672/51neg.	138,700.00	151,071.28		
Total Value 1951			1,509,839.45		382,734.58
17 June 52	643/51ext.2			211,557.50	475,071.30
12 Aug. 52	660/51ext.1			106,757.24	94,975.79
29 Oct. 52	660/51ext.2			4,750.00	4,220.00
Total Value 1952			0.00		574,267.09
20 May 53	690/52ext.			138,525.00	196,092.47
24 June 53	748/53neg.	714,725.00	1,027,820.00		
Total Value 1953			1,027,820.00		196,092.47
Cumulative Total - Negotiated			2,537,659.45		
Cumulative Total - Extensions					1,153,094.14
Total Value of All Allocated Contracts			3,690,753.59		

Source: 83.197 Provincial Archives of Alberta.

Mannix's representatives and the DPW.

An approximate comparison of the value of Mannix's allocated (negotiated and extended) contracts compared to those of other contractors can be made from Table 10. However, it should be noted that Table 10 records initial values rather than final amounts paid on contracts; the latter figures are not readily available, except for the Mannix contracts. Nevertheless, between the time when Manning authorized the DPW to reinstate its preference to the Mannix interests and the end of 1953, by which time the government had all but stopped the practice of allocating contracts, it can be approximated that the Mannix companies received between 1/2 and 3/4 of every dollar the government paid out on allocated contracts. The actual earnings Mannix derived from allocated contracts -- $3,690,753.59 -- appear to have far outstripped the value of all the allocated contracts of all of Mannix's competitors combined (Table 13, Table 11, Table 12).

The true impact of the Manning government's assistance to Mannix can be shown by comparing Mannix's earnings with those of his nearest competitor, Standard Gravel. A comparison of gross earnings (Table 6 and Figure 1), based on Public Accounts of Alberta statistics, reveals that the Mannix interests earned $950,014.69 in 1950, substantially less than Standard's earnings of $1,410,405.20. However, after Manning reinstated the DPW preference for Mannix on 17 July 1950 and the DPW began allocating contracts in early 1951, Mannix's earnings soon outdistanced those of Standard. By 1953, the Mannix interests were earning $4,849,330.31 compared to $3,748,175.34 for Standard. However, the statistics in Table 6 are based on gross earnings from all government contracts. A comparative analysis of earnings derived solely from main highway construction contracts is more instructive in explaining the cause of the relative improvement of Mannix's earnings.

Such a comparison (Table 14, Table 15) reveals that the improvement in Mannix's earnings had very little to do with the Mannix companies' ability to outbid Standard Gravel for contracts, even when it is assumed that the government was not rigging Mannix's bids as it had O'Sullivan's. Between Manning's memo of 17 July 1950 and 31 December 1953, Mannix won contracts on bids totalling $8,312,782.65 which paid $8,077,310.10 on completion; Mannix earned an additional $3,690,753.59 on allocated contracts, so that total earnings on main highway contracts amounted to $11,768,063.69. Standard's bid contracts paid very nearly as much as those of Mannix -- $8,172,160.82 in earnings based on bids of $7,440,170.86 -- but Standard received only $40,679.85 in allocated contracts, for total main highway contract earnings of $8,212,840.67. Mannix's superior total earnings were directly attributable to the preferential treatment shown by the Manning government when it awarded main highway construction contracts. At first glance, it appears that Mannix was less prone to exceed bid values than Standard, but most of the difference is attributable to the cancellation of Mannix contract 635/51, originally valued at $764,581.39, after only $208,752.80 of the work was completed.

When the Manning government faced the Royal Commission, most of

Table 14

Comparison of Bid to Earned Value for Mannix contracts*

		Bid Contracts		Allocated Contracts	
Award Date	Contract Number	Bid Value ($)	Amount Paid ($)	Negotiated Value	Amount Paid ($)
8 Dec. 50	620/50	336,625.00	325,674.02		
22 Jan. 51	592/50ext.			57,375.00	57,419.59
19 Apr. 51	625/51neg.			79,733.13	
Oct. 51	625/51amend.			98,869.08	165,796.54
17 May 51	635/51	764,581.39	208,752.80		
21 May 51	637/51	219,621.85	221,097.78		
29 May 51	643/51	360,353.50	448,677.05		
23 June 51	651/51neg.			182,219.70	217,507.25
28 July 51	655/51	222,111.67	255,224.75		
1 Aug. 51	651/51ext.			40,619.00	34,371.33
17 Aug. 51	660/51neg.			500,598.06	532,500.25
27 Aug. 51	661/51neg.			416,448.27	411,534.01
8 Sept. 51	662/51neg.			103,912.50	31,430.12
19 Oct. 51	643/51ext.1			142,402.50	290,943.66
15 Dec. 51	670/51	134,700.00	139,991.23		
17 Dec. 51	672/51neg.			138,700.00	151,071.28
5 May 52	678/52	657,109.15	680,486.14		
8 May 52	690/52	384,220.00	463,073.22		
9 May 52	682/52	684,659.54	672,939.64		
16 May 52	683/52	686,592.02	633,947.95		
6 June 52	691/52	237,910.00	271,769.07		
17 June 52	643/51ext.2			211,557.50	475,071.30
20 June 52	698/52	114,829.50	120,926.35		
23 June 52	700/52	629,419.00	674,953.00		
12 Aug. 52	660/51ext.1			106,757.24	94,975.79
29 Oct. 52	660/51ext.2			4,750.00	4,220.00
23 Dec. 52	707/52	65,320.00	67,131.72		
27 Apr. 53	719/53	991,765.67	1,074,300.97		
19 May 53	734/53	777,402.96	802,856.19		
20 May 53	690/52ext.			138,525.00	196,092.47
25 May 53	741/53	948,186.40	918,128.12		
24 June 53	748/53neg.			714,725.00	1,027,820.00
10 Dec. 53	766/53	56,425.00	56,425.00		
10 Dec. 53	768/53	40,950.00	40,955.10		
Total Bids		8,312,782.65			
Total Paid - Bid Contracts			8,077,310.10		
Total Paid - Allocated Contracts					3,690,753.59

Cumulative Total Earned: 11,768,063.69

* This table includes all contracts awarded to the Mannix interests from 17 July 1950, when Manning gave approval for DPW assistance to Mannix to the end of 1953, by which time the government had basically stopped providing allocated contracts. For a breakdown of which Mannix company has each contract, see Appendix 5.

Source: 83.197 Provincial Archives of Alberta.

Table 15

Comparison of Bid to Earned Value for Standard Gravel Contracts*

Award Date	Contract Number	Bid Contracts Bid Value ($)	Bid Contracts Amount Paid ($)	Allocated Contracts Negotiated Value	Allocated Contracts Amount Paid ($)
1 Aug. 50	610/50	1,654,035.06	1,845,587.41		
3 Jan. 51	623/51	232,825.00	232,832.64		
17 Apr. 51	632/51	538,208.02	716,639.97		
30 Apr. 51	629/51	250,523.28	286,470.79		
30 Apr. 51	630/51	146,242.26	158,275.60		
27 Aug. 51	645/51ext.			36,244.64	40,679.85
26 Nov. 51	668/51	140,360.00	140,799.30		
16 May 52	685/52	436,202.56	499,079.11		
22 May 52	687/52	254,242.50	368,586.29		
23 June 52	701/52	1,061,803.90	1,076,696.08		
23 Dec. 52	708/52	74,120.00	74,128.87		
20 Apr. 53	713/53	360,403.20	398,482.59		
1 May 53	731/53	1,353,275.47	1,347,884.13		
22 June 53	743/53	34,225.00	38,523.14		
22 June 53	744/53	23,038.40	22,375.45		
22 June 53	745/53	65,065.00	65,598.89		
22 June 53	746/53	684,561.21	769,151.96		
14 Dec. 53	771/53	82,875.00	82,874.11		
21 Dec. 53	773/53	48,165.00	48,174.49		
Total Bids		7,440,170.86			
Total Paid - Bid Contracts			8,172,160.82		
Total Paid - Allocated Contracts					40,679.85
Cumulative Total Earned		8,212,840.67			

* This table includes all contracts awarded to Standard Gravel from 17 July 1950, when Manning gave approval for DPW assistance to Mannix to the end of 1953, by which time the government had basically stopped providing allocated contracts.

Source: 83.197 Provincial Archives of Alberta.

the information in Table 14 and Table 15 was made public knowledge, but the government did not have to worry very much about the allocated contracts given to Mannix Ltd. thanks to the ruling of the Commission chair. As was mentioned earlier in this chapter, this ruling prevented Milvain from linking Mannix Ltd.'s $1,536,242.76 in negotiated contracts and $644,611.24 in extensions to Mannix-O'Sullivan's $867,739.52 in negotiated contracts and $91,285.50 in extensions -- 69.5% of all Mannix's allocated contracts were ruled not to be germane. Despite the chair's ruling, however, the government was anxious to explain Mannix Ltd.'s allocated contracts because it was trying to establish a convincing case regarding the integrity of all government contract awards. The device it employed to explain Mannix Ltd.'s allocated contracts was the same as the one it used to justify Mannix-O'Sullivan's allocated contracts -- it linked the allocated contracts back to an original award which had been won on the basis of a low bid (Table 16).

There were three major separate clusters of linked contracts awarded to the Mannix interests which resulted in total earnings of $4,393,215.33, of which $3,271,444.97 or 74.5% was due to allocated contracts. Although the government's explanations for these linked contracts differed in detail, the government generally claimed to have saved the taxpayers money by negotiating the unit prices on the allocated contracts. Contract 635/51 was cancelled after work had commenced when it was discovered that the road was not in condition for asphaltic surfacing. A new contract, 660/51, was therefore negotiated with Mannix Ltd. to undertake the necessary upgrading. The most

Table 16

Linked Contracts

Original Contract				Linked Contracts -							
Contract Number (Contractor)	Contract Type	Initial Value ($)	Amount Paid ($)	Contract Number	Contract Type	Initial Value ($)	Amount Paid ($)	Contract Number (Contractor)	Contract Type	Initial Value ($)	Amount Paid ($)
				660/51neg. (Mannix Ltd.)	neg.	500,398.06	532,500.25	660/51ext.1 (Mannix Ltd.)	ext.	106,757.24	94,975.79
635/51* (Mannix-O'Sullivan)	low bid	764,581.39	208,752.80	661/51neg. (Mannix-O'Sullivan)	neg.	416,448.27	411,534.01	660/51ext.2 (Mannix Ltd.)	ext.	4,750.00	4,220.00
				662/51neg.* (Mannix-O'Sullivan)	neg.	103,912.50	31,430.12				
643/51 (Mannix Ltd.)	low bid	360,353.50	448,677.05	672/51neg. (Mannix Ltd.)	neg.	138,700.00	151,071.28	643/51ext.1 (Mannix Ltd.)	ext.	142,402.50	290,943.66
				742/53neg. (Mannix Ltd.)	neg.	714,725.00	1,027,820.00	643/51ext.2 (Mannix Ltd.)	ext.	211,557.50	475,071.30
593/50 (Fred Mannix)	low bid	386,826.18	464,340.51	651/51neg. (Mannix Ltd.)	neg.	182,219.70	217,507.25	651/51ext. (Mannix Ltd.)	ext.	40,619.00	34,371.33
Total Paid - Bid Contracts			1,121,770.36	Total Paid - Negotiated Contracts			2,371,862.89	Total Paid - Extensions			899,582.08

Total Earned on Linked Contracts 4,393,215.33

* 635/51 and 662/51 were cancelled prior to completion

Source: 83.197 Provincial Archives of Alberta.

interesting feature of the arrangement is that the original contract was to Mannix-O'Sullivan, not Mannix Ltd.. During the Commission hearings, Milvain noticed the switch but he chose to argue that it demonstrated that, since Mannix Ltd. would have had to bring in its own equipment, the new contract should have gone to bid.[66] Milvain might more effectively have argued that the fact that the government negotiated a contract with Mannix Ltd. to replace one belonging to Mannix-O'Sullivan demonstrated the close connection between the two companies and the necessity for Mannix Ltd.'s contracts to be included with those of contractors owing or responsible for Treasury Branch debts. The government explained the two extensions provided to 660/51 as resulting from the proximity of Mannix Ltd. to the new work and noted that the unit rates from the original contracts were applied when possible, which would have led to a net savings.[67]

The government explained that contract 661/51, involving asphalt surfacing, was negotiated with Mannix-O'Sullivan at current prices to make up for the loss of 635/51. A government crew had previously been laying the asphalt on the section of road covered by 661/51 but the government claimed it would have been unable to complete the work on schedule.[68] Contract 662/51 was also negotiated with Mannix-O'Sullivan to make up for the loss of 635/51, but this contract was also cancelled after only $31,430 of work was completed. Whether or not the government's explanation had anything to do with the actual reason 662/51 was negotiated with Mannix-O'Sullivan is debatable. As Milvain pointed out during the Commission hearings, 662/51 was actually a contract to repair some faulty work done the year before on contract

592/50, for which Mannix-O'Sullivan had been paid $782,729.35.[69] The road was breaking down and even the repair contract was cancelled after it was decided that the subgrade would first have to be upgraded.[70] In sum, the government argued that the cancellation of 635/51 -- and the loss of potential earnings amounting to $555,828.59 -- justified the allocation of contracts which resulted in earnings of $1,074,660.17.

The government's explanation of a second cluster of linked contracts centering on contract 593/50 was carefully written to create the impression that a change in the route taken through Coleman necessitated a deletion from the original contract and the drafting of a new contract (651/51) to cover that work. 651/51 was then negotiated with Mannix Ltd. because that company was in the area. The government claimed to have saved money since any other contractor would have had to bring in equipment and would therefore have submitted higher unit prices to cover that extra expense. Basically the same argument about a deletion from the original contract was used to explain 651/51ext.[71] In fact, neither the route through Coleman nor the extra work entailed in contract 651/51ext. had ever been part of original contract 593/50.[72] It is also worth noting that 593/50 was originally negotiated with Fred Mannix & Co. Ltd. while the contracts which were allocated to make up for the 'deletions' from that contract involved Mannix Ltd. The government's explanation of these linked contracts again points out the inherent contradiction when it argued that Mannix Ltd. should not be included on the Treasury Branch list. However, in keeping with the chair's ruling, contract 593/50 was included on that list while contracts 651/51 and 651/51ext. -- which were negotiated with Mannix

Ltd. to make up for the 'deletions' to 593/50 -- were not included.

A third cluster of linked contracts centering on 643/51, together with most of the previously considered contracts linked to 635/51, show the extent to which another wish which Mannix had expressed to Olive was fulfilled by the Manning government: the wish to become firmly established in the north of the province.[73] Most of the contracts in these two clusters were either for work in the Peace River country or for the construction of highway 43, from the Peace country through Valleyview and Whitecourt to highway 16, west of Edmonton.

Until 1950, the government had undertaken only limited highway construction in the Peace country. Most contracts were awarded to local contractors, such as Thordarson Construction and Park Brothers, or jointly to Standard Gravel and Fred Mannix & Co. Ltd.[74] Contracts were generally awarded on the basis of negotiation rather than competitive bidding with the local contractors receiving the smaller projects and Standard and Mannix the rest. Neither Standard nor Mannix received any contract work in the Peace region in 1949 and both may have pulled out. At this time, to approach the Peace country by road still required a lengthy journey along highway 2 via Smith and past the south shore of Lesser Slave Lake. It was a time-consuming and costly trip, particularly if highway construction equipment was being moved, so any decision to commit resources to a contract in the area had to be made carefully. Contract 592/50, which was awarded in May of 1950 on the basis of a low bid to Mannix-O'Sullivan, was the first contract to include asphalt surfacing in the Peace country, so it required Mannix to move his paving equipment into the region.

As was suggested previously, although Manning did not formally reinstate the government's preference to Mannix until July 1950, contract 592/50 was the contract which really began the government's second round of support for Mannix. Contract 592/50 resulted in an overbid of $340,657.68. The government's practice of adding work on to the Mannix companies' contracts at comparable or current unit prices, such as occurred with each cluster of linked contracts and to create the overbid on 592/50, disregarded the fact that a significantly higher volume of work, in most instances, should have led to lower unit prices, since many of the overhead costs were already °paid for' in the original contract. If a contractor had previous knowledge that the volume of work on a contract would be increased he could afford to lower his bid prices in the knowledge that additions to the contract would still make it very profitable. When Mannix moved his paving equipment into the Peace country, he had the only paving unit in the area. Mannix was not only favorably situated to undertake the extensive roadbuilding program which the government then decided to undertake in that region over the next few years, he also had a competitive advantage over any other contractors in the province who had the equipment necessary to undertake the construction of the northern part of highway 43, which the government decided to begin building shortly thereafter.

Although most of the Peace region contracts went to bid, local contractors did not have the resources to compete and the advantage

Mannix derived from already being on location was probably decisive to his ability to outbid outside competitors. (Table 17 shows the Mannix interests' northern Alberta contracts.) On the other hand, all of the contracts linked to 643/51 for the construction of highway 43 were either negotiated contracts or extensions. The government explained that these contracts were awarded on the basis of negotiation with Mannix due to the inaccessibility of the work site and the availability of Mannix's equipment which resulted in lower construction costs.[75] There was probably some truth to the government's argument. Once Mannix began constructing highway 43, it would have been very difficult for any other contractor to submit a low enough tender to outbid Mannix: the costs of moving equipment into the Peace region via the route south of Lesser Slave Lake, and then down highway 43 to the construction site would have been prohibitive. The only real problem with the government's argument that negotiating the contracts had saved money was that the final costs on contract 748/53 had actually exceeded the negotiated figure by $313,095 or 43.8%. However, since 748/53 was a Mannix Ltd. contract, the government did not have to inform the Commission of the final cost.

With the exception of four contracts won by local firms, the Mannix interests either won by bid or were given negotiated contracts and extensions for all the road work in the Peace area and on the northern leg of highway 43 from 1950 until 1953. By that time, the northern and southern legs of highway 43 were almost joined and, with the increased construction activity in the Peace area, other firms were able to lower their bids enough to win contracts. Even then, it was

Table 17

Mannix Northern Alberta Main Highway Construction Contracts*

		Bid Contracts		Allocated Contracts	
Award Date	Contract Number	Bid Value ($)	Amount Paid ($)	Negotiated Value	Amount Paid ($)
23 May 50	592/50	442,071.67	782,729.35		
17 May 51	635/51	764,581.39	208,752.80		
21 May 51	637/51	219,621.85	221,097.78		
29 May 51	643/51	360,353.50	448,677.05		
17 Aug. 51	660/51neg.			500,598.06	532,500.25
8 Sept. 51	662/51neg.			103,912.50	31,430.12
19 Oct. 51	643/51ext.1			142,402.50	290,943.66
17 Dec. 51	672/51neg.			138,700.00	151,071.28
16 May 52	683/52	686,592.02	633,947.95		
17 June 52	643/51ext.2			211,557.50	475,071.30
12 Aug. 52	660/51ext.1			106,757.24	94,975.79
29 Oct. 52	660/51ext.2			4,750.00	4,220.00
19 May 53	734/53	777,402.96	802,856.19		
24 June 53	748/53neg.			714,725.00	1,027,820.00
14 May 54	796/54	620,726.95	624,314.08		
31 May 54	807/54**	441,467.69	?		

* For a breakdown of which Mannix companies are involved see Appendix 5

**807/54 was a joint contract with Western Construction & Lumber

Source: 83.197 Provincial Archives of Alberta.

not until 1955 that Mannix faced competition from another paving outfit in the Peace. Mannix's northern Alberta contracts resulted in total earnings of more than $6 million (Table 17).

The assistance which the Manning government provided to the Mannix companies led to a fairly rapid repayment of the Treasury Branch's O'Sullivan loan by 12 June 1951. In turn, the government's apparent success in extricating itself from the potential economic and political costs of the O'Sullivan loan probably encouraged it to continue the application of social credit economics in the Treasury Branch.

The government had made several adjustments in the Branch's practices in the wake of its problems with the O'Sullivan account to facilitate closer supervision of large loans and particularly large loans with repayment problems, but its basic approach had not changed. Although Olive had been replaced as chairman of the Loans Committee by Campbell Fraser in June 1949,[76] the change had not reflected a diminishment of Manning's confidence in Olive. The move was made partly because the growth of the Treasury Branch over the years had increased Olive's administrative duties and partly because Olive was from then on to take personal charge of the supervision of all large loans.[77] A few months later, Olive, who had technically been Acting Superintendent since his appointment in 1938, was officially made Superintendent, one reflection of Manning's continued faith in him.

Olive was a trusted civil servant who had absorbed the flack from the Loans Committee and from Percival for his unauthorized advances to O'Sullivan when he had, in all likelihood, been carrying out the cabinet's wishes in continuing to support O'Sullivan. Although Olive was no longer chairman, he still attended Loans Committee meetings in a consultative capacity and Fraser generally supported Olive's recommendations regarding the Branch's larger loans. Most importantly, Olive continued to carry out the government's policy of pyramiding the loans of choice Branch customers in order to increase their -- and the Branch's -- economic profile. The Treasury Branch's imposition of credit restrictions which had led to the crippling of O'Sullivan Construction and the takeover by Mannix were a temporary abberation; pyramiding was an ongoing policy. In fact, at the time that the government had been negotiating with Mannix to rid the Branch of its O'Sullivan loan, it had started to pyramid the loans of a major new Branch client, Sparling-Davis Company Limited. By the time Manning reinstated the government's preference for Mannix in July of 1950, there were already signs that the Branch's Sparling loan was in trouble.

Endnotes

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1. "Transcript," Volume xii, pp. 816-17, 18 October 1955.

2. Report, 13-15.

3. "Transcript," Volume xiii, 19 Oct. 1955. MacMillan was minister from May 1948 until November 1950 when he had to enter the hospital. Olive's requests were forwarded from Manning's office by Elliott, his Executive Secretary, on 17 July 1950. "Elliot to MacMillan," 17 July 1950, 69.289/1772A.

4. Other institutions included the Nova Scotia Industrial Loan Fund (est. 1944), the Manitoba Development Fund (1948), the Saskatchewan Industrial Development Fund (1951), and the federal government's Industrial Development Bank (1944). Neufeld, The Financial System of Canada, 106.

5. "Untitled," n.d., 69.289/1676A.

6. "Budget Speech Delivered by The Hon. Ernest C. Manning Treasurer of the Province of Alberta," 4 March 1946, A. Snitka, King's Printer, 1946.

7. "Percival to Olive," 8 May 1947, 69.289/1421.

8. "Percival to Olive," 10 Oct. 1947, 69.289/1421.

9. Olive supplied the Commission with month-end balances for any month in which O'Sullivan received a highway construction contract. ("Transcript," volume xii.) However, Olive's figures are sometimes lower than those recorded by the Treasury Branch Loans Committee (72.467) and, of course, Olive also omitted the balances relevant to those contracts which the government withheld from the Commission.

10. "Minutes," Loans Committee, 24 Nov. 1948, 72.467.

11. See the DPW's ads in the Edmonton Journal, The Albertan, and the Lethbridge Herald in the late 1940s and early 1950s.

12. "Worksheet, Main Highways Branch, Statement of Contracts Awarded, 1947," 83.197. W.C. Wells Construction also submitted a bid but it arrived after the competition had closed and was not considered.

13, "Worksheets, For Commission Sept. 19/55," 83.197.

14. See the "Worksheets," Main Highways Branch, Statements of Contracts Awarded," 1947-1955, 83.197. None of these contracts (542/49, 543/49, 544/49, 548/49) had to be shown to the Commission but they were among the negotiated contracts crossed off the worksheets with the possible

intent of their being withheld.

15. Ibid.

16. The two largest contracts, 439/47 and 489/48, were won on low bids by Standard Gravel. "Worksheets," Main Highways Branch, Statements of Contracts Awarded, 1947-1949, 83.197.

17. "Worksheets," 83.197. The untitled worksheets are a list of all O'Sullivan and Mannix company highway construction contracts.

18. "Worksheets," Main Highways Branch, Statements of Contracts Awarded," 1947-1949, 83.197.

19. "Construction Report to June 30, 1949," 70.221/20.

20. Ibid.

21. During the same period, the government provided some additional support through the Bridge Branch and the Maintenance Branch of the DPW. O'Sullivan was provided with negotiated contract 438/47 for the Oldman River bridge ("Bridge Branch ... Statement of Contracts," 1941-1955, 83.197.) and numerous negotiated maintenance contracts worth a total of some $35,000. ("J.H. Johnston, Chief Maintenance Engineer to Helman, re: Contracts in the Maintenance Branch of the Department of Highways between 1941 and 1951," n.d., 83.197.) Maintenance contracts were generally negotiated, but the frequency of awards to O'Sullivan strongly suggests that the contracts were being supplied as part of the government's overall assistance package.

22. "Percival to Olive," 8 May 1947, 69.289/1421.

23. "Percival to Olive," 8 May 1947, 69.289/ 1421; "Percival to Olive," 19 July 1947, 69.289/1421.

24. "Percival to Olive," 10 Oct. 1947, 69.289/1421. See 69.289/2281 regarding performance problems cited by the Highway Commissioner and the Bridge Engineer in the fall of 1947.

25. "Percival to Olive," 19 March 1948, 69.289/1772A.

26. "Worksheet," O'Sullivan and Mannix contracts, 83.197.

27. "Minutes," Loans Committee, 8 Dec. 1948, 15 Dec. 1948, 72.467.

28. "Minutes," 19 Jan. 1949, 72.467.

29. The meeting presumably took place on 19 Jan. 1949 and is referred to in the "Minutes," Loans Committee, 2 Feb. 1949, 72.467.

30. Some idea of the time lapse in the completion of O'Sullivan's contract work can be gained by comparing his gross yearly earnings from government contracts (Table 6) with his earnings based on yearly

contract awards (Appendix 5). It can be seen that most of the earnings from contracts awarded in 1947 and 1948 were received in 1949.

31. "Minutes," Loans Comittee, 9 Feb. 1949, 16 Feb. 1949, 23 Feb. 1949, 9 March 1949, 20 Apr. 1949, 72.467.

32. "Minutes," Loans Committee, 20 April 1949, 72.467.

33. "Minutes," Loans Committee, 24 Nov. 1948, 25 May 1949, 72.467.

34. "Minutes," 30 May 1949, 72.467; "Olive to K.J. Hawkins, Deputy Provincial Treasurer," 25 November, 1949, 69.289/1772A; "Minutes," Loans Committee, 25 May 1949, 72.467.

35. "Olive to Hawkins," 25 Nov. 1949, 69.289/1772A.

36. "Minutes," Loan Committee, 25 May 1949, 30 May 1949, 72.467.

37. "Minutes," Loans Committee, 25 May 1949, 30 May 1949, 72.467.

38. The statistics are derived from the government's exhibits to the Royal Commission and the worksheets used in preparing those exhibits. 83.197.

39. The figures are based on the statistics in Tables 11 and 12.

40. "Construction Reports 31 May - 30 Dec. 1950," 70.221/74.

41. "Appendix VII," 83.197.

42. "Worksheet," Main Highways Construction Awards 1949, 83.197.

43. "Fraser to Manning," 29 Nov. 1949, 69.289/1772A.

44. The eventual loan was for $600,748.72 with receivables due and cash amounting to $221,393.82. "Olive to Hawkins," 25 Nov. 1949, 69.289/1772A; "Minutes," Loans Committee, 22 June 1949, 72.467.

45. In addition to highway contracts worth some $407,833 and bridge contract BE 5/49 worth $45,016, Mannix took over O'Sullivan's unfinished contract work which had been estimated at close to $200,000 in April of 1949, although this figure would have been less by 31 May. "Minutes," Loans Committee, 20 April, 1949, 72.467. The Public Accounts of the Province of Alberta record earnings of just over $600,000 for Mannix-O'Sullivan and Fred Mannix & Company Ltd. for the year ending 31 March 1950.

46. "Olive to Hawkins," 25 Nov. 1949, 69.289/1772A.

47. "Olive to Hawkins," 25 Nov. 1949, 69.289/1772A.

48. "Fraser to Manning," 29 Nov. 1949, 69.289/1772A.

49. "Fraser to Manning," 28 March 1950, 69.289/1773.

50. "Olive to Loans Committee," 20 March 1950, 69.289/1773.

51. The estimates were $11,730,000 for main highways construction and an additional $2,000,000 for the Trans Canada Highway in 1950 and a total of $9,174,200 in 1949. ("Budget Speech Delivered by The Hon. Ernest C. Manning Treasurer of the Province of Alberta ," 3 March 1950, 4 March, 1949, Edmonton, A. Snitka, King's Printer.) The three companies earned some $475,324 on their 1949 contracts (Appendix 5), although their total government earnings were much higher, partly because some of the 1948 contracts were finished in 1949. (Table 6)

52. "Olive to Loans Committee," 20 March 1950, 69.289/1773.

53. "Olive to Fraser," 28 March 1950, 69.289/1773. The paving contracts mentioned were for stretches of road from Wetaskiwin to Camrose, Seba west on the Edson highway and Taber east on the Medicine Hat highway.

54. "Fraser to Manning," 28 March 1950, 69.289/1773.

55. "Worksheets," Main Highway Construction Awards, 1950, 83.197

56. "Olive to Loans Committee," 28 March 1950, 69.289/1773.

57. "Fraser to Manning," 4 July 1950, 69.289/1772A.

58. "Olive to Fraser," 4 July 1950, 69.289/1772A; "Fraser to Manning," 4 July 1950, 69.289/1772A; "Peter Elliott to D.B. MacMillan," 17 July 1950, 69.289/1772A. Elliott was Manning's executive secretary.

59. "Olive to Fraser," 4 July 1950, 69.289/1772A.

60. "Olive to Fraser," 27 April 1950, 69.289/1772A.

61. "Memorandum of Agreement," 24 April 1950, 70.221/57.

62. "Olive to Fraser," 4 July 1950, 69.289/1772A.

63. "Elliott to MacMillan," 17 July 1950, 69.289/1772A; "Olive to Fraser," 4 July 1950, 69.289/1772A.

64. "Worksheet," Main Highway Construction Awards, 1951, 83.197.

65. "Olive to Fraser," 4 July 1950, 69.289/1772A; "Olive to Fraser," 28 March 1950, 69.289/1773.

66. "Transcript," Volume vii, 11 Oct. 1955.

67. "Contract No. 660/51, Grading, Berwyn to the 6th Meridian, Mannix Limited," 83.197.

68. "Re: Highway No 34, Smoky River to Junction Highway No. 2 and

Highway No. 2, from Berwyn to the Sixth Meridian," 83.197.

69. "Transcript," Volume vi, p. 301.

70. "2-J-2, Junction of Highway No. 34 - Grande Prairie 2-K-1, Grande Prairie - N. of Wembley; Contract 662/51 - August 27/51 Repairs to Asphaltic Surfacing and Stockpiling Crushed Aggregate Material," 83.197.

71. "Coleman Revision," 83.197; "Addenda to Coleman Revision," 83.197.

72. "Worksheet," Main Highway Contract Awards, 1950, 83.197.

73. For Mannix's wish see "Olive to Fraser," 28 March 1950, 69.289/1773.

74. The analysis is based on the worksheets and exhibits prepared by the Main Highways Branch in preparation for the Royal Commission. 83.197.

75. "Re: Valleyview - South," 83.197.

76. "Minutes," Loans Committee, 15 June 1949, 72.467.

77. "Minutes," Loans Committee, 13 April 1949, 72.467.

CHAPTER 6

The Manning Government's Support of Sparling

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There were several reasons why the government did not want the Royal Commission to investigate Prowse's charges concerning Sparling-Davis. It will be recalled Prowse had charged that, after Mannix assumed responsibility for the loans which Sparling-Davis Co. Ltd. owed to the Treasury Branch, the government both assisted Mannix in obtaining highway construction contracts and brought pressure on oil companies seeking permits from the province to use Mannix's new Sparling companies for pipeline and storage tank construction. The Royal Commission's investigation of these charges would almost certainly have revealed the true size and the precarious safety of the Branch's loan to Sparling before Mannix's takeover in 1953 and thus have undermined the Branch's reputation for business competence, shown its dependence on Mannix for the successful payment of those loans, and established a clear motive for the government's wanting to assist Mannix. It was probably the damage to the Branch's credibility which the government feared more than any possible link to highways or oil field work contracts. As was shown in Chapter 4, most of the highways contracts awarded to the Mannix companies after Mannix assumed control of the Sparling interests were won in a competitive bid situation. Although Prowse had insinuated that, when Mannix submitted a tender, the government rigged it so that he would have the low bid, it would have been virtually impossible to prove this charge. There are some indications that the government did try to influence oil companies to use the Sparling firms after Mannix's takeover but, even if this were true, when the same oil companies depended on the government for everything from exploration leases to drilling permits they were not apt to testify against the government. On the other hand, any suggestion of Treasury Branch incompetence in handling monies of the magnitude of the Sparling loans was sure to revive the familiar litany of opposition charges that the Branch was careless in registering securities, reckless in granting loans based on real estate security, and lacked the qualified personnel to manage its public trust.

A Commission investigation might have shown that the government's claim of an arm's length relationship with the Treasury Branch was a sham and that, instead, the government carefully coordinated the support which the Branch, the Alberta Industrial Corporation [AIC] and the Marketing Board gave to Sparling. By pyramiding the Sparling loan, the Branch was largely the author of its own misfortune. When the loan first became troubled, the government used AIC funds to bail out the Branch. The Marketing Board was also providing so much funding to the Sparling companies, at least partly to help out the Branch because of its Sparling loans, that its ability to assist other Alberta manufacturers was severely restricted. Later, when certain of the Sparling companies were unable to meet their obligations to the AIC and the Board, the Treasury Branch, in turn, provided the necessary funds.

A Commission investigation might have also discovered that the Branch and the government had ignored countless warnings from the provincial auditor that the pyramiding of Sparling's loan was just exacerbating the Branch's problems. In a final desperate effort to recover the loans after years of such pyramiding, the government had the Branch take control of the Sparling companies away from J.T. Sparling at the start of 1952. The Branch then attempted to reduce current liabilities by forcing Sparling-Davis to sell some of its capital assets to other Sparling companies, but it ended up both increasing its loans to those companies, partly so that they could make their payments to Sparling-Davis, and advancing more funds to Sparling-Davis. The fact was that the government had no solution, other than pyramiding, to offer for a troubled loan, yet it lacked the political will to admit its mistakes, force liquidation and face up to the losses.

Lastly then, a Commission investigation might have come to question the circumstances in which Mannix gained control of the Sparling companies. The government was aware that Mannix had expressed an ongoing interest in purchasing Sparling-Davis Co. Ltd. before it decided to restrict Sparling's credit. The ensuing negotiations between the Branch, Sparling and Mannix Ltd. reveal the government to have been both gullible and very desperate to be rid of its Sparling connection. As it turned out, that connection was not so easily broken. One year after Mannix's takeover, the Branch loan had increased by one million dollars, to more than $4.5 million and Superintendent Olive was asking Manning to place the names of Mannix's new companies before any oil companies requiring pipeline and oil tank storage construction.

The government's involvement with the Sparling interests provides a vivid illustration of how the strategy of following devious routes to achieve social credit could easily be camouflaged so that it would appear to an outsider as the kind of economic incentive program which might have been followed by any government. Once the erroneous assumption is removed that the Manning government had given up its quest for a social credit economy, it makes sense that it would have tried to channel any of its economic diversification projects through its social credit institutions. In that way the institutional infrastructure of social credit would be strengthened as the economy grew. The Treasury Branch was at the center of the government's strategy and any loans granted by the Marketing Board or the AIC to increase the purchasing power of their clients were automatically extended through the Branch. As was just pointed out, the government coordinated its support of the Sparling industries through the AIC, the Provincial Marketing Board, and the Treasury Branch. At one time or another, the Treasury Branch leant money to four separate Sparling companies, Sparling-Davis Company Ltd., Sparling Fowler, CESSCO, and Hupp & Elliott, and indirectly supported two others, the Ontario-based Sparling-Davis Tank & Manufacturing Co. Ltd., and an American affiliate, Sparling-Fowler-Murphy. Out of these companies, the AIC also loaned funds to the °parent' company, Sparling-Davis Co. Ltd., and the

Marketing Board provided funds for both Sparling-Davis and CESSCO. Although it runs counter to the traditional image of the Manning government as being reluctant to interfere in the market place, the government was using the AIC and the Board, which required cabinet approval for funding decisions, and the Branch, which was theoretically at arms length from any government interference, in a coordinated effort to strengthen the Treasury Branch -- the heart of the government's social credit program -- and to diversify the Alberta economy.

Although the Manning government's commitment to building a social credit economy in Alberta must ultimately be measured in terms of the total coordianted program of support it provided for the Treasury Branch and its customers, its direct financial investment was relatively small. There were a variety of reasons. The Alberta government was still labouring to repay its depression era debt and, until after the Leduc discoveries, its budget was fairly restricted. As well, Manning's inherent conservatism and anti-socialist leanings made him a reluctant investor in state supported enterprise and in direct incentives to private industry. When such support was nevertheless desirable in terms of the long term goal of a social credit economy or for partisan or economic development reasons, it could be provided free of ideological contamination by utilizing one of the social credit institutions which the government had created -- the Treasury Branch, the AIC, or the Marketing Board -- to increase a particular business's purchasing power.

In the long run, the Branch was the institution of choice when the government was serious about assisting an industry. The AIC, which had been announced by Manning in his 1946 budget address as part of a "vigorous policy" of promoting industrial development in the province, was under the supervision of the Deputy Treasurer.[1] During the tenure of both Percival and Hawkins this meant fiscally conservative leadership, so the government was probably limited in practice in its pursuit of social credit goals using this device. In practical terms, the AIC was supposed to provide loans for capital investment and the Marketing Board was supposed to provide monies for the purchase of raw materials for manufacture by Alberta labor. Thus, neither agency had the flexibility to satisfy the needs for both capital investment and operational loans which was essential when the government backed a young industrial firm. The Treasury Branch, on the other hand, could provide increased purchasing power (incentives) by pyramiding loans to a favoured customer without demanding regular repayment or exercising strict supervision over how the money was actually spent. There was also the advantage that the Branch was basically protected from public inquiry on the grounds, first, that it was at arm's length from any government interference and, second, that its clients' bank accounts were private, not public, business. Unlike a bank, which would independently decide to invest its customers' capital in loans to make a profit however, the Branch was investing risk capital belonging to its customers to pursue strategic ideological and economic goals which were actually established by the government.

In the 1950s, the Manning government seems to have gradually abandoned both its efforts to achieve a social credit economy and its use of direct incentives to businesses as part of its economic development strategy. After the 1947 Leduc oil discoveries, the number of new industries coming to Alberta grew rapidly and incentives to attract industry became less and less necessary unless the government wished to use non-regulatory means to dictate the type and pace of economic development occurring in the province, as it had in the 1940s. The explanation for the government's abandonment of its pro-active diversification initiatives may rest less in Manning's personal conversion to orthodox and quasi-_laissez faire_ economics than in the mounting costs of the failure of the policies of such social credit institutions as the Board, the AIC, and the Branch. Clearly, there is a need for further research into the economic development policies of the Manning government but there are indications that the Board, like the Treasury Branch, was having difficulties in the late 1940s and early 1950s.

The limited funding of the Marketing Board, as was suggested, was never adequate to address the task of diversification. Although the government, for political reasons, always preferred to advertise the Board's role in assisting small, and basically agricultural, industries,[2] B.A. Powe noted as early as 1951 that the Board had been sidetracked from "providing economies of large scale buying to small manufacturers," to supporting "medium-sized and even ... big international companies."[3] Powe apparently viewed the policy of supporting larger industrial concerns as being more apt to have a positive effect on the province's economic development but it seems more likely that it simply emphasized the inadequacy of the Board's budget to render meaningful assistance to larger industries while at the same time depriving smaller manufacturers of an equal number of dollars. The Board also had difficulties with clients who were unable to clear their inventories, or who used the Board's funding to buy high cost-low turnover items and pre-manufactured items. Lastly, the Board was to provide short term assistance to help a business become established. Repeat customers, who depended on the Board to carry part of their inventory year after year, limited the Board's ability to assist other Alberta manufacturers, but that is exactly what sometimes happened with clients such as CESSCO.

Although the Treasury Branch was sometimes more daring in its promotion of industry than the AIC and the Marketing Board, its loans initiatives were undermined by its continuing adherence to social credit economics and its opposition to the conventional banking practices which might have safeguarded those loans. The Manning government was not in favor of adding to the provincial debt. Manning viewed pyramiding debt as robbing the consumer of purchasing power, in much the same way as inflation did.[4] In keeping with social credit economics, the government believed it was creating credit rather than debt through such Branch policies as pyramiding loans and allowing 'unauthorized overdrafts'.[5] When it allocated contract work, it was partly to guarantee that social credit theory was not contradicted in practice by the Branch being saddled with debt. The Manning government became less apt to allow the Branch to pyramid loans as the decade wore on.[6] It seems likely that the compounded failures of the Branch's social credit solution for financing the growth of such customers as Phelan, Podgurney, Robinson, Borden, O'Sullivan and Sparling gradually convinced the government to stop the practice of pyramiding -- in spite of the best efforts of the government, the Branch was creating debt. Indeed, the political and economic costs of protecting the Branch's unfortunate investments in the Sparling interests alone were prohibitive. Those costs finally became clear to the government when the 1955 election results were announced. In the wake of the election and prior to the Royal Commission, Manning temporarily authorized the restriction of all Branch loans to a maximum of $100,000 to any one individual, company or corporation, but that decision was apparently reversed after an appeal by Olive on the grounds that the Branch stood to lose "various tried and proven connections" to the chartered banks.[7]

It might be argued that, in the late 1940s and early 1950s, the Manning government's willingness to intervene in the market place to encourage the diversification of the province's economy was for the first time matched by its increasing revenues from Alberta's Leduc-induced oil boom, so that a window of opportunity existed for the government to at least start the process of diversification. Although such an opportunity may have existed, much of the energy and funding the government was actually willing to invest in diversification was absorbed by its investment in the Sparling interests. The results of the Sparling investment for the government were so disastrous that it must have been reluctant to undertake any further experiments in applied social credit economics. Thus, the problems created by the very philosophy which the government espoused undermined its efforts to diversify the economy and contributed to its reluctance to supply direct incentives to other industries. Following the 1955 election, Manning and the government, through political and economic necessity, came to accept free enterprise economics to such an extent that they rejected a government entrepreneurial role in the market place. Even if a window of opportunity had existed before that time, it seems doubtful whether the Manning government had possessed the expertise which might have allowed it to progress towards the goal of economic diversification.

[ii]

When the government first began sponsoring the growth of Sparling-Davis Co. Ltd. in September 1948, its enthusiasm was so great that the various government agencies which supplied the funds required little convincing that they were being offered an excellent investment opportunity. On 16 September 1948, the Treasury Branch Loans Committee welcomed Sparling as a client before the company was even incorporated in Alberta. It provided a $175,000 loan for operational expenses in connection with a contract with Imperial Oil and $25,000 for capital assistance with the understanding that the AIC would later assume responsibility for this portion of the loan.[8] The Marketing Board at least waited until Sparling-Davis Co. Ltd. was incorporated in Alberta in November 1948 and then it provided $100,000 for the purchase of steel for the manufacture of oil field speciality items.[9] By February of 1949, the AIC's total support to Sparling Davis had increased to

$190,000[10] and the Treasury Branch loan had increased to over $200,000 to help Sparling-Davis with operational expenses on an Imperial Oil contract for gas gathering in the Leduc field and an anticipated British American Oil Company contract for pipeline work in the Redwater field.[11]

Despite the involvement of multiple government agencies providing loans to Sparling-Davis, the company's need for capital investment and operational funds soon exhausted the available resources and forced these agencies to ignore their statutory limitations and, sometimes, the needs of their other clients in order to continue helping Sparling. When one agency encountered difficulties, the government's strategy was to bail it out by increasing the assistance provided by the other agencies. Within one year of the establishment of Sparling-Davis's first Treasury Branch loan, for example, total advances, according to the deputy treasurer, had pyramided to $425,768 "on an unauthorized and partially unsecured basis."[12] This was probably the second largest loan in the Branch's history to that time and yet, like the O'Sullivan loan, it had been allowed to pyramid without Sparling-Davis having made any satisfactory payments which would have demonstrated the ability ultimately to liquidate the debt. To decrease the Branch's exposure, in September 1949, the Executive Council approved an increase in the AIC's financing, from $190,000 to $450,000.[13] Under agreements involving J.T. Sparling, the Branch, and the AIC, Sparling was to invest an additional $125,000 in Sparling-Davis and the Branch loan was not to exceed $100,000 in the future.[14] It is possible that Hawkins, who was then serving as the president of the AIC, may have had the bargaining power to insist on a restriction on future Branch loans because he was allowing the government to use $260,000 of AIC funds which were basically intended for capital investment to rescue Branch loans which had originally been extended for operational expenses.

In a related move to the government's increase of the AIC's assistance to Sparling-Davis, the Marketing Board was preparing to increase its assistance to another Sparling company, CESSCO. CESSCO was the Canadian supplier for various American oil field equipment manufacturers and, in an agreement with Parkersburg Rig & Reel Co. Ltd. of West Virginia, it also had Sparling-Davis Co. Ltd. manufacture for it oil and gas separators, emulsion treaters and other oil field equipment.[15] In fact, just as the AIC's support of Sparling-Davis had both stretched its statutory powers, since it was providing money for other than capital investment, and decreased by that amount its ability to provide capital assistance to other Alberta companies, so the Marketing Board's assistance to the Sparling interests had already had a detrimental effect on its ability to finance manufacturing ventures by other Alberta companies. As early as March of 1949, the Board's support for Sparling-Davis had amounted to $225,000 out of its total outstanding loans to all Alberta companies of $385,000.[16] The negative impact the financing of Sparling was having on the Board's ability to help other Alberta industries had probably been responsible for provincial auditor Huckvale's decision to try to enforce restrictions which would not allow the Board to exceed a maximum of $100,000 support for any one company.[17]

As will be seen, Huckvale did not succeed in reigning in the Board's loans to the Sparling interests until 1950-51 so, in September 1949, when the AIC increased its loan to Sparling-Davis in order to help out the Branch, the Board was able to increase its assistance to CESSCO to a total of some $150,000 at least partly, according to the Board's minutes, "to protect previous loans made by other Branches of Government."[18] The Treasury Branch Loans Committee favoured the Marketing Board's support of CESSCO because it provided the Branch with the account, since Board loans were arranged by Marketing Services Ltd. through the Branch, and also facilitated the AIC's involvement which was also extended through the Branch.[19] Obviously, the Board's support of CESSCO offered the Branch one further advantage, since it provided an alternate source of funds for the Sparling interests. In return for the Board's increased support and explicitly because that support was offered to protect the loans of "other Branches of Government," the Board won a reduction in the interest rate the Branch charged it for its CESSCO loan. With the decision to support CESSCO in order indirectly to assist other government agencies to which Sparling was indebted, the Marketing Board began a policy which would continue to justify its loans to CESSCO long after Mannix had assumed responsibility for Sparling's Branch loans and into the late 1950s.

Although, in the long term, the government's investment in Sparling discouraged it from offering incentives to other industrial interests, in 1948, amidst the euphoria of the Leduc discoveries, Sparling was viewed as a model of the diversification which would result from the province's oil wealth. Without naming the Sparling interests specifically, Manning even cited the beneficial impact which a new manufacturer of oil field equipment was having on the province's employment in his 1949 budget address.[20] The enthusiasm engendered by the province's booming oil industry and by the role which Sparling was appointed to play in the development of that industry was also having its effect on the deliberations of the Loans Committee. Although the Branch had agreed not to exceed a $100,000 maximum in its loans to Sparling-Davis as part of the November 1949 agreement which had seen the AIC take over $260,000 of the Sparling-Davis's loan from the Branch, that sum had already been reached by December.[21] When Sparling approached the Branch for additional advances of $350,000 for operating expenses on some new contracts less than one month later, Loans Committee Chairman Fraser recommended the loans to Manning by noting:[22]

> There is no necessity for us to discuss the value of this particular association of firms to the Province from an industrial and employment point of view... True the development [of Sparling's companies] has been greater than originally anticipated but it might also be said that the oil potential was also greater and development quicker than anticipated earlier.

For Fraser, the promise of the oil industry and of Sparling industries were wed together. Sparling's new contracts were enough proof of viability and loans payments could wait until later.

There was another reason why Fraser was anxious to see the Branch continue to provide the financing Sparling required. Much of the $350,000 advance Sparling was asking for was required for his participation in two joint projects with Mannix, to build 125 miles of the Edmonton to Regina pipeline and to build the Portland line from Montreal to the Canadian border. As well, Sparling-Davis was supplying pipeline equipment for a Bechtel-Mannix joint project.[23] It is difficult to explain the Branch's fixation with Mannix. He was viewed as a sound operator whose name in association with any project almost guaranteed its success and he was destined to be the saviour of the O'Sullivan loan, for it was just at this time that Fraser was trying to persuade Manning to agree to DPW help for Mannix-O'Sullivan. Fraser also may have hoped Mannix would eventually become a Treasury Branch customer and, in the short term, further Mannix involvement with valued Branch clients, such as Sparling, could only enhance the Branch's position and further secure its investment, particularly since Mannix had been attempting to take over the main Sparling company, Sparling-Davis. Thus, Fraser informed Manning that the "ability of the [Sparling] companies to carry out the projects seems to be undoubted, otherwise the associated interests Mannix etc. would not have so to speak teamed up..."[24]

The specific advances Sparling was requesting were $75,000 in addition to the existing loan of $100,000 for Sparling-Davis, $200,000 for Sparling-Fowler and $75,000 for CESSCO. The CESSCO loan was to finance the installation, service work and inventory costs which would allow it to sell pipeline equipment manufactured by Sparling-Davis. After J.T. Sparling had refused to sell Sparling-Davis to Mannix, he had incorporated Sparling-Fowler at Mannix's specific request with the guarantee that it would have "no Sparling-Davis obligations or commitments."[25] The Branch may have assumed that Mannix insisted on the formation of the new company so that in any future takeover bid for Sparling-Davis he could avoid having to acquire the additional capital assets resulting from the joint ventures since such assets would be part of Sparling-Fowler. Sparling-Fowler was to be the active partner fulfilling Sparling-Davis's commitment in the two joint ventures with Mannix, while Mannix's commitment, although under his control, was to be fulfilled by Campbell Construction, a subsidiary of Morrison-Knudsen of Boise, Idaho. Until 1951, Fred Mannix Co. Ltd. was still under the majority control of Morrison-Knudsen. According to Richards and Pratt, the connection facilitated Mannix's involvement in the "large postwar Canadian projects engineered and constructed by American companies: the St. Lawrence Seaway, Interprovincial Pipe Line, the Trans Mountain Pipe Line and the Mid-Canada radar line."[26] Under the joint pipeline agreements, equipment and capital were to be provided on a 50/50 basis on the Regina contract, while Mannix would finance 100% of the operational costs of the Portland line and Sparling would furnish personnel and sponsor construction.[27]

When the Branch agreed to Sparling's loan requests, it brought the government's total advances to Sparling to $1,125,000.[28] The loans to Sparling-Fowler and CESSCO intensified the government's involvement with every level of Sparling's operations and provided a foretaste of the complicated financial interlocking which came to characterize future government involvement with Sparling. For instance, the Marketing Board was paying for some of the steel inventory for Sparling-Davis while the Treasury Branch was paying for some of the operational costs involved in manufacturing that steel into pipeline equipment in a Sparling-Davis plant which had partially been paid for by the AIC. The Treasury Branch stepped in once more to help finance CESSCO's sale of Sparling-Davis's products and, since the new loans which the Treasury Branch advanced to the Sparling interests exposed the AIC to greater risk on its loan, much of which had originally been made to bail out the Branch, the Branch now guaranteed that Sparling-Davis's payments to the AIC would be kept current.[29] The government's commitment to finance the various Sparling companies at the start of its joint ventures with Mannix also began a new phase of pyramiding which was to continue for close to three years. The continued pyramiding of the Sparling companies' loans during that time and the very gradual imposition of what for most banks would have been standard safeguards for such large loans reveal the extent to which neither the Branch nor the government -- which exercised increasing control over decisions regarding those loans -- had accepted orthodox economics or conventional banking practices by the early 1950s.

[iii]

Under increasing government direction, the Treasury Branch's handling of the Sparling loans passed through three phases in the period from 1950 to its decision to restrict credit at the start of 1953. In 1950, as Sparling's loans pyramided to more than $1 million and planned reductions failed to materialize, the Branch increased its monitoring of Sparling's operations and tried belatedly to gain control over its spiraling advances, but it did not exercise any effective supervision or control over any phase of Sparling's operations, including the expenditure of its own advances. In 1951, as Sparling's loans pyramided to close to $3 million, the Branch further increased its monitoring of Sparling's business but it also began to assume more and more power to control Sparling's management decisions. By this time, the provincial auditor was winning his battle to bring the Marketing Board back within its statutory limitations so the Branch assisted Sparling-Davis in meeting its obligations to the the Board, just as they had previously started helping with Sparling-Davis's payments to the AIC. It was becoming evident that Sparling was not only unable to make any loans reductions, he was even having trouble realizing a profit on most of his contracts. Since Sparling required more and more contracts if he was ever to pay his loans, the Branch began pointedly to steer him towards joint ventures in the apparent hope that a partner could help him turn a profit. By the end of the year, it had acquired the right to make all management decisions.

Unfortunately, there is less information available for 1952. However, it is clear that the Loans Committee was simply rubber-stamping decisions which were probably being made under the direction of the cabinet. It appears that Sparling continued to run his company on a day to day basis although the government could by now control almost all aspects of his operations, from which contracts he bid on to how much he budgeted for the completion of each phase of each project. In an attempt to reduce Sparling-Davis's current liabilities, the company was forced to divest some of its capital assets to CESSCO and a new company, Hupp & Elliott, and the Branch then offered further financing for these companies. Nothing which the government tried worked however and the loans continued to pyramid at an alarming rate. The government had exhausted all of its options but one, and on 31 December 1952 the Branch informed Sparling that it would cease to finance his operations in 1953. It had taken three years but the government's enthusiasm for Sparling had finally been replaced by the concern that a good portion of the Branch's total loan might be irrecoverable.

Despite Fraser's enthusiasm when he recommended the new Sparling loans to Manning in January 1950, events would show that he had not wholly understood the terms of the joint venture agreement between Mannix and Sparling. There is no denying that Sparling's new contracts were potentially lucrative but the Loans Committee appears to have been rushed into a decision by Sparling's request for almost immediate approval so that he could proceed with the contracts.[30] It turned out that the Branch's loan was based on the contract requirements estimated by the company accountant but he had been busy with other work as well and his estimates were wrong. When Sparling's costs on the Sparling-Davis account exceeded the new loan total of $175,000, it forced the Branch to grant an unauthorized increase of $156,200. At its March 8th meeting, the Loans Committee approved this advance and established a new total of $469,000 to take care of other related costs and to help finance a new contract for the Hartell refinery. Because of the previous inaccurate forecast of expenses, the Branch also insisted that Sparling hire a competent comptroller, submit twice weekly statements of disbursements and overhaul its accounting system.[31]

Although the Branch was trying to insure that it would have a more accurate picture of Sparling's books in the future, there were several problems with its handling of the account. It still had not demanded an independent audit of Sparling's books, yet without such an audit it was willing to accept the Sparling comptroller's prediction of a net $500,000 profit on the existing contracts of Sparling-Davis and Sparling-Fowler. In the meantime, the Branch was providing retroactive approval for unauthorized advances which, as the provincial auditor had repeatedly warned, often led to troubled or uncollectable loans. It had no control over the contracts which Sparling could undertake which, potentially, could force the Branch to provide extra financing if Sparling was unable to finance them himself, and it was not in control of how its own loans or Sparling's contract earnings would be spent. Although they were still enthusiastic about the Sparling accounts, both the Loans Committee and Fraser admitted that the new loans were being advanced partly to protect their own previous investment and that of the AIC. In fact, part of this latest advance was to fulfill its guarantee to the AIC that Sparling-Davis's obligation would be kept current and, from this point on, the Branch seems basically to have made Sparling-Davis's payments on the AIC loan which had originally been made to bail out the Branch loan to Sparling.[32]

The new arrangement did not please Hawkins, who as mentioned was responsible for the AIC. Just a few days after the Branch's March 8th approval of the new loan, Hawkins complained to Manning that it had been approved without reference to the AIC. He warned Manning:

> In my opinion ... [the Branch] loan is now in a dangerously weak position; the company is inadequately secured; working capital impaired and extravagantly managed; and liquidation is dependent on a completion of present contracts at a remunerative profit and [under] a close supervision to assure that profits are not diverted into other channels, failing which a very substantial loss will occur.

Hawkins suggested that the new advances had been granted to save Sparling "from being placed in an extremely embarassing position," and he argued that Sparling required substantial outside capital which -- in what was most likely a reference to Mannix -- could probably be obtained if Sparling was willing to give up his controlling interest. Hawkins concluded: "It is not considered that the Treasury Branch should place themselves [sic] in a dangerous position in order to maintain the controlling interest in the hands of Mr. Sparling."[33] It is interesting to speculate what Manning's reaction might have been to Hawkins's suggestions had the dispute with Mannix over the fulfillment of the Mannix-O'Sullivan agreement been resolved at this time. It will be recalled that it was also in March of 1950 that Mannix made his second approach to Olive in an effort to win Manning's approval for increased main highway construction work but, although Mannix was beginning to meet the conditions on which Manning was insisting, final approval was not given until July. By then, the Branch had committed itself to further financing of Sparling's contracts and was optimistically awaiting loans reductions.

Events soon showed that the Branch was extremely naive in expecting significant loans reductions when Sparling had never established his ability to make a profit on any of his contracts. There were already some warning signs of future problems. It had turned out that the net profit of $500,000 which it had expected Sparling-Davis and Sparling-Fowler to earn had not included any provision for depreciation which brought the anticipated profit down to $372,000. Whether, in the final analysis, some of Sparling-Davis's actual earnings, such as the allocation for the depreciation allowance, actually went into profit-taking is a moot point. As well, rain delays on the Hartwell project necessitated a further advance of $50,000 in April, which had reduced the earnings from that project which could be applied to the loan from $90,000 to $40,000. Since no payments had yet been made, the total Sparling-Davis loan then stood at $519,000. Nevertheless, the loan appeared to be protected by ample contracts which, while insufficient to liquidate, could at least begin the process of reduction in May. To prevent the bleeding off of the profits from these contracts to finance new projects, about which Hawkins had warned in his March memo to Manning, the Branch obtained a letter from Sparling guaranteeing this would not occur.[34]

The letter turned out to be of little use since Sparling was still able to enter into new contracts so long as he did not touch the specified funds. The Branch was then caught in the position of having to approve advances for operational expenses so that Sparling could complete the contracts; otherwise, Sparling's reputation in the industry would have suffered and both Sparling and the Branch were depending on that reputation for future earnings. As well, Sparling's forecasts of his operational expenses were seldom accurate so that the Branch was being forced to provide additional funds on an incremental basis to protect its previous advances. In October, the Branch began demanding that Sparling submit applications for assistance for any new projects as well as monthly forecasts of requirements. In November, by which time the Sparling-Davis loan had pyramided to $1,155,090 and the Sparling-Fowler loan to $300,000, the Loans Committee began requiring briefs on any contract over $50,000, bi-monthly progress statements on assigned work, and more detailed statements of expenses. Although the loans reductions anticipated since May had not occurred, the Loans Committee was still optimistic that the liquidation period had arrived, that the total loan would be reduced to $351,000 by year's end, and that thereafter further steady reductions would occur provided the Branch continued to cover Sparling's operating expenses in 1951.[35]

Thus, by the end of 1950, the Branch finally had in place a reporting system which, theoretically at least, would for the first time allow it to anticipate and monitor Sparling's financial requirements and thereby gain some measure of control over the pyramiding process, but its loans were far from secure. Over the previous two years, the Branch's failure to undertake any meaningful risk evaluation when it loaned money to Sparling and its disregard for conventional banking safeguards for those loans had allowed the creation of an enormous debt load. The Branch was still depending on the accuracy of Sparling's bids and financial forecasts and ultimately on Sparling's as yet unproven ability to make the substantial profits necessary to liquidate that debt load. The Branch's hope that reductions would occur was soon disappointed as Sparling-Davis's loan pyramided to $2,203,000 by the spring of 1951.[36]

There were a variety of reasons why this unexpected pyramiding occurred. By December of 1950, the Branch had obtained specific assignments on all contracts over $50,000 except for a general assignment on some contracts which were being undertaken by Sparling-Fowler-Murphy, an American spin-off of Sparling's.[37] In May of 1951, the Loans Committee learned that, rather than earning substantial anticipated profits, the American firm had lost more than $100,000 of Sparling-Davis funds borrowed from the Branch. Sparling-Davis was also losing money on some other contracts but, more importantly, the joint ventures with Mannix had not turned out as the Branch had expected.

It appears that within the terms of the agreement between Mannix and Sparling-Davis, by which Campbell Construction and Sparling-Fowler undertook the Regina and Montreal pipeline projects, Mannix had been left free to pay Sparling mainly on the basis of an equipment settlement rather than from the earnings of the projects. It will be recalled that Sparling had rushed the Loans Committee into approving financing for these projects. It does not appear that the Committee even saw the joint venture agreements before authorizing the loans and indeed throughout 1950 it expected reductions to its loans totalling some $400,000 to result from the completed projects. However, the Sparling-Fowler loan, which had increased from $200,000 to $300,000 while the projects were underway was actually only reduced to $255,212 from the earnings.[38] In effect, the Treasury Branch loans had financed the purchase of some used equipment from Mannix. There was one obvious advantage for Mannix in being able to keep the earnings from the joint ventures in exchange for his used equipment. In 1951, Fred Mannix was attempting to sever his connection with Morrison-Knudsen so he needed liquid assets. Between the earnings on the joint ventures and the previously mentioned Treasury Branch loan to the Alberta Coal Company, $600,000 of which was to pay a debt to Fred Mannix & Company, the Treasury Branch seems to have supplied Mannix with close to one million dollars which could be used to repatriate his business.[39] Thanks to Manning's memo to the DPW, Mannix was also enjoying his most lucrative year ever in the highway construction business. The Mannix-O'Sullivan company alone realized a net profit of $207.316 in 1951.[40]

Mannix was to be disappointed if he hoped that Sparling-Fowler would be maintained as a separate company so that he could later purchase Sparling-Davis without having to buy back his own used equipment. With the completion of the joint ventures, Sparling-Fowler ceased to exist and its assets, later estimated by Olive to be worth $320,000 (a figure which included its own equipment as well as that acquired from Mannix), were acquired by Sparling-Davis.[41] Of course, some of the expenses on the two pipeline projects had not been paid directly by Sparling-Fowler but had been met indirectly by the Branch's loans to Sparling-Davis so that the total impact of the joint ventures was a massive increase in Sparling-Davis's debt and the acquisition of some used equipment from both of the joint partners. Although the Mannix and Sparling-Fowler equipment may have been overhauled before it was turned over to Sparling-Davis, it is worth noting that part of the explanation for the pyramiding of Sparling-Davis's loan was $60,000 for equipment overhaul much of which was apparently additional to the amount budgeted for working capital, including equipment overhaul, the previous November.[42] Perhaps unintentionally, by allowing its loans to pyramid while Sparling acquired more capital assets, the Branch had supplied the capital investment which Hawkins had identified several months before as essential to Sparling-Davis's survival. The difference was that Hawkins had hoped the capital investment would be made by an outside investor who would decrease Sparling's dependency on the Branch and relieve Sparling of control of the company.

Sparling-Davis's increased Branch financing forced the Loans Committee to re-evaluate its overall commitment to Sparling. It recognized that it was basically authorizing the loans, as the minutes of 9 May 1951 record, "to avoid Company embarassment and loss of Treasury Branch funds." In place of its former unrealistic optimism, it now suggested that the Branch would continue to finance on the basis of a new five year liquidation plan, subject to re-evaluation if developments were not satisfactory. It began to exercise increased control over the operations of Sparling-Davis by requiring further staff changes, a monthly review of budget requirements, and stricter supervision of the financing required for any bids on new contracts. It also started authorizing remittances only after verification by chartered accountants and, for the first time, began curtailing President J.T. Sparling's drawings from company funds.[43] However, if the Branch hoped that these measures would lead to loan reductions or at least slow the pyramiding of Sparling's loans, it was destined to be disappointed, for two new problems soon arose. First, the provincial auditor was finally succeeding in limiting the Marketing Board's assistance to both Sparling-Davis and CESSCO, which increased Sparling's reliance on Branch funds and, second, Sparling-Davis continued to lose money on most of its contracts.

As suggested earlier, the Marketing Board's early enthusiastic support for Sparling-Davis and CESSCO led to a total investment which stretched the bounds of its statutory limitiations, inhibited its ability to meet the needs of other clients and led to the intervention of the provincial auditor who tried to restrict the Board's assistance to any one company to $100,000. Part of Huckvale's concern was that neither Sparling company was clearing its inventory, which tied up funds which might have gone to other businesses. Rather than insisting that Sparling buy out the balance at the end of the agreement, the Board simply provided an extension. Similarly, to avoid the auditor's caution about a $100,000 limit, the Board entered into multiple agreements with the same company.[44] In an attempt to prevent the Board from authorizing repeated extensions, Huckvale finally forced a confrontation in September 1950. He argued that the Board's short term agreements should be for specified three, six or 9 month periods, by the end of which the company had to be responsible for clearing the inventory. Instead, Manning accepted as a guide the Attorney General's interpretation that a short term agreement was the time required for the disposal of the inventory. However, since the Executive Council approved all Board loans anyway, it was decided that they were best qualified to establish the term of each specific loan.[45]

Although Huckvale lost this battle, his overall concerns about the Board were apparently heeded. In the fall of 1950, the Board began restricting CESSCO's loan from $150,000 to $115,000 and Sparling-Davis was kept within the $100,000 limit.[46] The Board's decisions did not really have any impact on the Branch until the following summer when the agreements were due to expire and the Board began to insist that the inventories be cleared. In June 1951, the Board rejected CESSCO's request for an additional $50,000 and offered a maximum of $100,000 provided the existing inventory was sold.[47] On August 9th, it approved the new loan of $100,000. It was probably no coincidence that shortly before, the Treasury Branch had provided CESSCO with an advance of $25,000, bringing its total loan up to $75,000[48] since the new advance was probably used to buy out CESSCO's Board inventory. The Branch provided similar support for Sparling-Davis.

The Marketing Board was probably even more anxious that Sparling-Davis's inventory be cleared. Judging from the Board minutes, Sparling-Davis had been using the Board's funds to pay for high cost, low turnover items which would otherwise be too expensive for it to stock. The Board rejected Sparling-Davis's request for $190,000 in funding and offered $100,000 on the condition that the inventory be readily saleable and that orderly reductions of one-twelfth of the total occur each month. To help Sparling-Davis meet its Board obligations, the Branch paid the deposit on the new contract.[49] The Marketing Board's new policy of restricting the term and the amount of any support it offered to the Sparling companies as well as to the other manufacturers it was supporting had an almost immediate and beneficial effect on its operations. The fact that it was no longer carrying so many large inventories from year to year helped it to reduce its liabilities, since it was now able to pay off its Treasury Branch loans.[50] In turn, this placed the Board in a position to offer assistance to other businesses. Although the Treasury Branch's new assistance to Sparling-Davis to enable it to pay the Board was fairly limited in terms of the company's total loans, it further complicated the Branch's financial involvement. In effect, the Treasury Branch, which was still making the payments on the government AIC loan to Sparling-Davis, was now also paying certain of Sparling's Marketing Board commitments. In a sense the money simply went in a circle, since the Board had borrowed the money from the Branch to pay for the two Sparling companies inventories and now the Branch was lending the money to at least one of the companies to pay the Board which then paid the Branch, but the essential difference for the Branch was that where the Board had previously been responsible for paying back the loan, now the Branch had to depend on Sparling.

Of greater importance to the Branch than its new responsibilities for Sparling's Marketing Board commitments was the growing evidence that, whether through inaccurate bidding or wasteful practices while executing its contracts, Sparling-Davis was losing money on most of its 1950 contracts as they were completed in 1951. As late as July of 1951, when Sparling-Davis's loans stood at approximately $2.5 million, the Loans Committee was bravely predicting that the company was "over the hump." The reason for the Committee's optimism was that a $100,000 reduction had been made on the loan in July and this had created the anticipation that further reductions would be made each month unless more funds were required because of new contracts.[51]

The contrast between the Branch's optimism and Huckvale's evaluation of the Sparling account, made just a few days later, clearly illustrates the gap which still existed between the Branch, which continued to hope that Sparling's increased purchasing power would create a profitable company, and the fiscally orthodox auditor. In a memorandum to Manning citing the Branch's ongoing problems with inadequate security and breeches of authority and discretionary limits, Huckvale singled out the Sparling account as an example of those practices, warned that Sparling's loans "have increased to a size completely beyond the bounds of the debtor's ability to pay," and predicted a possible loss of $1.5 million on the account. He suggested that the Committee was basically approving advances after they occurred -- which implied that the monthly forecasts demanded by the Branch were so inaccurate as to be meaningless -- and he argued that the Branch had tried to "window-dress" its balance sheet by first converting Sparling-Davis's $187,000 overdraft into note form at the end of the fiscal year, and then returning it to an overdraft in the new fiscal year. In fact, Huckvale noted that the Branch's total overdrafts had reached a peak of over $1.5 million at the end of one recent month.[52] It seems that the Branch was still trying to rearrange numbers in a ledger to satisfy the auditor without addressing the basic problems behind the overdrafts or the auditor's concern that overdrafts often converted into long-term troubled loans. As more and more of

Sparling's contracts were completed at a loss, it became obvious that Huckvale's warnings were more realistic than the Loans Committee's optimism.

An analysis of Sparling-Davis's 1950 contracts as of 31 October 1951, which was supplied to Manning by Olive,[53] revealed that eight of the company's ten 1950 contracts had been or were expected to be completed at a loss. Sparling had bid a total of $1,269,834 on the ten contracts and the Branch had supplied a total of $596,609 in loans. Sparling's net loss was anticipated to be $241,239 and, assuming the Branch did not pick up the difference, $105,644 of the Branch's loans for these projects would not be repayable from the earnings. Although a balance sheet on Sparling-Davis's 1951 contracts estimated profits of $323,283 -- based on a further $888,981 in loans -- for a combined net profit for the 1950 and 1951 contracts of $82,044,[54] the Branch was beginning to understand that increased loans alone were not the solution to the company's problems. Realizing that Sparling-Davis required more contracts if it was ever to pay off its loans but that this just created further demands for Branch financing, the Committee as early as July had started to steer Sparling toward joint projects because this would cut overhead costs such as bonding requirements.[55] In all likelihood the Committee was also hoping that the expertise of a joint partner might lead to the profitable completion of such contracts. Certainly by the fall of 1951 the Branch was interpreting Sparling-Davis's contract losses as attributable in large measure to J.T. Sparling's inadequate management skills and it prepared to take away almost all the authority he still retained to act independently.

The need for restrictions on Sparling's authority was reinforced by fresh evidence that Sparling-Davis's 1950 contract losses were going to exceed the Branch's estimates. In early November, the losses on the American contracts, which in October had been estimated at $127,835,[56] were newly estimated by Olive to be $241,000. Such losses reduced the amount which Sparling's American operations could pay to Sparling-Davis and left Sparling-Fowler-Murphy, with assets estimated at $100,000, owing Sparling-Davis a cumulative debt of $386,494.[57] By the end of the month, the Branch was pressuring J.T. Sparling into accepting an agreement which offered further assistance on the conditions that he accept the division of his Treasury Branch debt between a $1.7 million deferred account with a five year liquidation period and a current liability account, that he assign his shares, thus giving the Branch the unconditional right to make all management and liquidation decisions, and that he give up all recourse to legal action no matter what those decisions might be. Olive admitted to the Loans Committee that the Sparling-Davis shares were "of little or no value at the present time," but he considered the shares of Sparling-Fowler-Murphy and CESSCO to have "considerable value" and predicted an improvement in operations over the following year. Sparling-Davis's loans at that time amounted to about $2.7 million[58] while the CESSCO loan was some $75,000. According to Olive, most previous problems were attributable to poor bidding on the 1950 contracts, but the 1951 contracts were soundly bid.[59]

By the end of 1951 then, the Treasury Branch was in complete control of every phase of Sparling's operations. It had decided to pay for Sparling's operational expenses for 1952 and it was still paying Sparling's AIC loan and carrying the interest on its own loans. In reality, of course, most decisions were being made under cabinet direction with Olive providing direct supervision, and the Loans Committee merely offering retroactive approval. Typically, the Loans Committee did not even see the operating budget for a given period until the period was almost expired. Olive later admitted that, by December 1951, the Branch had come to the realization that Sparling-Davis was "improperly managed and in addition lacked the experienced personnel to take care of accounting and contract bidding." In keeping with this realization, the government's first move to turn the company around was to require Sparling-Davis to hire new personnel, including a new General Manager, Secretary-Treasurer, and chartered accountant, and some experienced engineers. It also cut Sparling's salary from $25,000 to $12,000 after reprimanding him severely for his "free and easy spending."[60] Its next move was to insist on the sale of some of Sparling-Davis's capital assets to decrease the company's current liabilities.

The Branch had basically stopped supporting the acquisition of new capital assets by Sparling the previous September when it refused to finance the proposed purchase of a plane by J.T. Sparling.[61] The decision to liquidate some of Sparling's capital assets seems to have been made in December 1951. Sparling-Davis had somehow acquired a paving machine and become involved in road construction as a sideline to its pipeline and storage tank construction business. It turned out to be an abortive experiment. The company's first contract was with the City of Edmonton, not the province, and Olive estimated that it would result in a loss of $51,841. As a result Sparling-Davis was attempting to sell the paving machine even though he had more than $100,000 in contracts pending.[62]

Next, in February of 1952, Sparling sold equipment and land -- including the Sparling-Davis workshop originally financed by the AIC -- valued at $300,000, and 'good will', valued at $150,000, to CESSCO. The $450,000 agreement was assigned to the Treasurer with the AIC retaining a first mortgage. Payments were to be $40,000 per year with a lump sum payout of $250,000 on 30 October 1957. In February as well, Sparling sold equipment and land valued at $157,900 to Hupp & Elliott Construction Co. Ltd. under a lease rental agreement assigned to the Treasurer and payable over five years. Shortly thereafter, Sparling-Davis's tank assets valued at $167,618.15 and goodwill valued at $150,000 were sold to a new Ontario company, Sparling-Davis Tank & Manufacturing Ltd.. Under the agreement, the Branch provided temporary funding until 1 July 1952, by which time Sparling was to have arranged eastern financing.[63] Assuming that CESSCO and Hupp & Elliott could realize sufficient profits to make their payments and that Sparling-Davis Tank could arrange its eastern financing, Sparling-Davis could expect a gradual but significant drop of over $900,000 in its total liabilities from the three sales agreements. That is not how it worked.

First, Sparling kept the paving machine and used it on some federal government contracts at the Namao Airport and Wainwright.[64] Next, Hupp & Elliott applied for a loan of $20,000 from the Branch to finance its operating expenses. The Branch refused but did approve $10,000 of which $3,300 was owed to Sparling-Davis under the lease rental agreement.[65] Next, CESSCO applied for $150,000 to assist with expenses to fill some additional orders and with the purchase of Sparling-Davis's workshop. The Branch again refused but it did approve $75,000 for the same purposes. This brought its total loans to CESSCO up to $150,000. Next, Sparling, on behalf of Sparling-Davis Tank, convinced Olive that his tank operations were losing money because he had to undertake on-site contruction which resulted in the costly transport of equipment and the time-consuming handling of sheet metal. With Olive's permission, Sparling entered into an option to purchase agreement with John Inglis Co. Ltd. of Toronto to buy the assets of Production Castings Ltd. for $350,000. Sparling made a downpayment of $25,000 and was to pay the balance from the earnings of Sparling-Davis Tank which, of course, diverted earnings which might otherwise have gone to repay the Branch. Over the next year, Sparling was able to pay John Inglis a further $150,000 from the earnings of his tank operations but this did not help the Branch. In fact, Sparling failed to arrange eastern financing for Sparling-Davis Tank by the 1 July 1952 deadline, so the Branch had to continue its temporary financing of this arrangement as well.[66]

The Branch's policy of decreasing Sparling-Davis's current liabilities was turning into a shambles. When Sparling-Davis divested itself of assets, it did not really solve anything because, except for a limited investment from Hupp & Elliott, there was no new capital coming into the company. When the other Sparling companies required extra help because of their increased debt loads, the Branch came to their rescue with extra loans. The Branch -- and the government -- were still unwilling to face the economic and political costs of liquidating. Not only was the Branch apparently indirectly financing most of the sales agreements, complete with their inflated values for 'goodwill', but its total loans to the combined Sparling interests were still pyramiding. In December 1951, those loans had stood at $2,769,694. By the summer of 1952, they had increased to approximately $3.5 million.[67] Unfortunately, available documents do not explain all the reasons for the increase, although part of it seems to have been due to a capital investment of $129,216 for river dredging equipment and pipeline equipment which became necessary for Sparling to complete one of his contracts.[68] The rest was probably required for operating expenses on other contracts.

In addition to spreading Sparling-Davis's assets among Sparling's other companies to reduce Sparling-Davis's current liabilities, the government once more tried, in 1952, to help out the Branch by spreading the government's support to other agencies. Additional funding from the AIC was no longer possible since it had exhausted its statutory limit of $5 million in loans and was being wound down, but the Marketing Board was still operating. When CESSCO's request for $150,000 was turned down by the Branch, the company immediately sought extra funding from the Marketing Board. In May, CESSCO asked the Board for $150,000 with a 15% deposit. The Board granted the loan but with its customary 20% deposit.[69] Later that summer, the Board provided a further $100,000 which was basically used by CESSCO to purchase some Sparling-Davis steel which had been in stock since 1949 and 1950.[70] Once more, the Board was straying beyond the guidelines, which the provincial auditor had only just managed to see enforced, in order to help the Branch with its Sparling loans.

There is very limited information available on the government's relations with the Sparling interests through the rest of 1952. The Branch's loan stayed in the $3.5 million range so the Branch avoided any further pyramiding during the rest of the year. The pyramiding of the first half of 1952 had probably been undertaken involuntarily in order to protect the government's interests by allowing Sparling to complete his contracts. Between February and November 1952, Sparling-Davis's total liabilities increased from $3,768,979.67 to $4,731,412.46, a total increase of $962,432.79. The Branch's attempts to decrease current liabilities had failed miserably. The increase in liabilities was some $200,000 more than the increase in Sparling's Branch loans with the difference mainly being attributable to Sparling's purchase agreement with John Inglis.[71] The Sparling-Davis audited statement to 30 November 1952 predicted a net profit after depreciation of $347,833.97 but Olive warned Manning that expenses over the next three months could considerably deplete those profits. Sparling-Davis Tank's estimated profit of $119,596.72 was expected to be wiped out by a loss of $130,000 due to a faulty tank installation.[72]

By the end of 1952, the Manning government was anxious to sever its financial relations with Sparling if it could avoid political embarassment. Over the previous three to four years it had provided well over $4 million in financing from the Treasury Branch, the Marketing Board and the AIC. It had pyramided Sparling's Branch loans until it believed the Branch was being put in a dangerous position. Then it had increased its AIC and Board funding to pay off some of the Branch loans and to provide alternate funding sources for Sparling's capital and operating requirements even though this had stretched the statutory limitations of these agencies. Then it had pyramided Sparling's loans some more. It had tried to improve its monitoring of Sparling's operations. Then it had taken increasing control over management decisions from Sparling but the loans had continued to pyramid. During this period, it had begun paying Sparling's loans to the AIC and some of Sparling's Board commitments even though these loans had been made, in part, to assist the Branch to recover its loans to Sparling. Eventually it had taken charge of Sparling's companies. It had forced the sale of some of Sparling-Davis's assets to his other companies to decrease current liabilities and then wound up helping those companies make their payments while Sparling-Davis's current liabilities continued to increase. And the Branch loans had pyramided another $750,000 after the government was in charge. Sparling owed the Branch approximately $3.5 million but Sparling's total liabilities were closer to $4.7 million and the government would probably have to protect Sparling from any legal actions the other creditors might initiate to recover their monies. It was not a very good record.

The government had brought most of its misfortune on itself. It had begun financing Sparling-Davis without audited financial statements or any proof that the company was profitable. It had been too anxious that the Treasury Branch -- the key to the government's social credit strategy -- should benefit from the province's oil development. It had allowed its loans to pyramid to a level at which it could not afford to liquidate because of the damage that would cause to the credibility of the Branch and the government. And it still did not know if Sparling was going to make a profit. By the time the Branch finally began imposing the conventional monitoring of its loans which would have been standard procedure in any bank, it was already trapped and had to let Sparling complete his existing contracts and enter into new ones if its loans were ever to be repaid. The government had been increasingly certain that Sparling's problems rested with Sparling himself, but when it took control of the company away from Sparling, it discovered that it did not have the expertise to turn Sparling-Davis around. By the end of 1952, the government was ready to give up on Sparling. The way in which it gave up raises as many questions about the government's competence as does its handling of the Sparling-Davis account over the previous three to four years.

According to a working copy of Olive's response to Order-in-Council 1015/55, following the quarterly audited statement of 31 December 1952, the Branch finally decided that due to "underbidding of contracts and inefficient organization and management" it was not going to finance the 1953 operations of the Sparling interests and "[as] a result Mr. Sparling started negotiations with Mr. Fred Mannix of Mannix Ltd.."[73] The 31 December audit could not possibly have been available until several weeks into 1953. Yet, according to another Olive memo, this one to E.W. Hinman who was appointed Treasurer after the 1955 election, Sparling actually began negotiating with Mannix in early January 1953.[74] Assuming Olive's dates are accurate, it appears that the Branch may have been aware that Sparling was negotiating with Mannix before it decided to stop financing Sparling's operations.[75] Although there is no definite proof that this is the case, it would certainly be consistent with the Branch's general refusal to liquidate under almost any circumstances because of the economic and political costs involved. In any case, the Branch had known of Mannix's interest since 1950 and its subsequent actions show it to have been not only willing to assist Mannix but extremely gullible while the negotiations were occurring.

At first, as in 1950, Mannix wanted Sparling-Davis but not the other Sparling companies and he offered $1.25 million. In a 1956 memo to Hinman, Olive later admitted that, at this stage in the negotiations, "[Mannix] was aware that Sparling was in difficulties and I feel confident now he delayed closing any deal purposely in order to drive as hard a bargain as possible." Mannix seems also to have realized that the government was in a weak position since it wanted out of its commitment to Sparling. Nevertheless, the government was unwilling to allow Sparling-Davis to be separated from the other Sparling companies so Mannix backed away from his direct purchase offer. Instead, Sparling and Mannix suggested a multi-party agreement by which Mannix would take over Sparling's assets and attempt to earn sufficient profits from them to pay out the Branch's loans. The Branch would retain title to some of the assets. Although the negotiations had started in January, a tentative agreement was not reached until March and the Sparling companies did not wind down their operations until the end of September.[76] During this entire period, the Branch continued to restrict Sparling's credit, which basically left Sparling at Mannix's mercy.[77] Again, Olive later realized that Mannix had taken advantage of the delay resulting from the government's insistence that all of Sparling's companies be included. He wrote Hinman: "In the interim, through lack of working capital, the position of the Sparling Companies was deteriorating rapidly. It was realized that the Multi-Party Agreement presented [to the Branch] was far from satisfactory, but we felt we had no alternative but to go along with it."[78]

Under the multi-party agreement, Mannix formed three new companies: Sparling Davis Ltd., Hupp Ltd., and Sparling Tank Ltd. At the time of the takeover, the book values of the Sparling companies were: Sparling-Davis Co. Ltd. - $1,152,485.70, Hupp & Elliott - $201,338.74, and Sparling-Davis Tank and Manufacturing Co. Ltd. - $734,475.25, for a total of $2,088,299.69. The originating assets of the Mannix's new companies were: Sparling Davis Ltd. - $850,000, Hupp Ltd. - $150,000, Sparling Tank Ltd. - $500,000, for a total of $1,500,000. Thus, Mannix had immediately depreciated Sparling's assets by $588,299.69. As well, Mannix benefitted from earnings due of $144,237.70 from work in progress for which all expenses had been paid. Olive also claimed that Mannix had benefitted from a tax gain advantage of close to $1 million. Basically, the multi-party agreement was similar in nature to the agreement by which Mannix-O'Sullivan had been formed. Once more, the future payout of the Branch's loans was dependent on the earnings from the capital assets of new companies which had come under the control of Fred Mannix.

When it came time to reach a settlement with Sparling, the government unbelievably allowed Mannix to act as its intermediary in the negotiations. Mannix reached a negotiated settlement of $200,000. Olive later informed Hinman that, in the process, Mannix had convinced Sparling to sign over "50% of the common stock of Canadian Equipment Sales & Service Co. Ltd. which actually did not cost him a cent." As well, when Mannix paid the settlement, he informed the Branch that $137,070 of that amount "was to purchase the assets of Hupp Ltd. and retire the note held by [the Branch]"[79] -- an interpretation which the Branch does not seem to have accepted. When Olive reviewed the arrangement for Hinman in 1956, he suggested that the shares of CESSCO were "problematical" but admitted CESSCO was operating at a profit each year and "should develop into a real lucrative asset."[80] Olive may have underestimated the value of CESSCO to save face. Prior to the sale of the Sparling-Davis workshop to CESSCO, Olive had made particular note of the improvement in Sparling-Davis's shopwork.[81] It seems likely that the CESSCO shares were a real coup for Mannix.

Although Olive made it seem like Mannix had taken advantage of the government's trust, it appears that the government actually helped him get his CESSCO shares. As soon as the Branch cut off credit, the only alternative source of government funds for CESSCO was the Marketing Board. The year before, when the government had forced CESSCO to buy $450,000 in assets from Sparling-Davis Co. Ltd., the Marketing Board had increased its assistance to CESSCO to $250,000, basically to help the Branch. In 1953 however, as Mannix negotiated for CESSCO's shares, the Board reversed its policy. By June, CESSCO had paid out the first $150,000 of its Board loans from the previous summer and in August it asked for a renewal. The chairman of the Board, George Clash, now rejected the application on the grounds that CESSCO still had an outstanding $100,000 loan from the previous summer and that the new request did not "come within the present restricted policy of the Board to render assistance in the requirement of inventories for the purpose of fabricating ... [and] thereby creating employment for Alberta labour."[82] Basically, CESSCO had been seeking help to buy some pre-manufactured inventory items. At a subsequent meeting involving Clash, Olive, and R. Skinner, CESSCO's President, Clash stressed the need for CESSCO to reduce its inventory, which was valued at more than $500,000, and to separate finished products being imported from those requiring fabrication in part or in whole.[83]

The Board was certainly within its rights but its sudden attention to the restrictions which the auditor had been trying for years to see enforced had more to do with politics than with any change in the Board's attitude. The previous summer it had allowed its second loan to CESSCO, amounting to $100,000, to be used mainly to finance "pre-fabricated or fully manufactured articles."[84] Once Mannix gained 50% control of CESSCO's shares at the start of October, the Board again relaxed its restrictions on CESSCO's loans. Early in October, CESSCO again applied for $200,000. The Board offered only $100,000 on the condition that no Sparling-Davis steel would be carried by the Board's loan and that some fabrication occur under the new financing.[85] However, a week later, the Board reconsidered when CESSCO informed it that the restriction regarding manufacturing rendered the assistance meaningless due to the backlog of Sparling-Davis steel. It agreed to allow the purchase of items manufactured since the expiry of the previous agreement and the import of manufactured items up to a combined total of $100,000.[86]

Although Mannix had certainly benefitted from the credit restrictions imposed by the Branch and the Marketing Board when he acquired control of the Sparling companies, this did not necessarily mean that the good relations between the government and Mannix would continue. The similarities between Mannix's takeover of Sparling and his previous takeover of O'Sullivan extended beyond the common factors of the Treasury Branch's involvement and a rental-purchase agreement and it was not long before problems once more arose between Mannix and the government. At first Olive had hoped that, with the transfer of ownership to Mannix, the Branch's problems were over. According to Olive, Mannix had given "his assurance that he would operate the Companies to the best of his ability and for our mutual benefit."[87] Olive was soon disappointed.

By March 1954, the provincial auditor was reporting that the total Sparling loans had pyramided to $4,539,407.57, an increase of $987,736 from one year before.[88] Huckvale had grown increasingly frustrated by his inability to convince Manning of the seriousness of the Branch's problems. At the start of 1954, he had warned Manning that the Robinson loans, which were examined in Chapter 2, were following the same pattern as the Sparling-Davis Co. Ltd. loans, with new advances being made basically to protect an uncollectable loan.[89] Now he complained: "little or no attention has been given to the comments contained in previous reports, with the result that the condition [of Branch loans] has become progressively worse. I cannot over emphasize the critical situation which exists in respect to the loans and loaning activities of the Treasury Branches." Huckvale considered $5,398,048.08 of the Branch's total loans of $21,539,460.00 to be in trouble. He rated loans to a value of $4,963,353.71 partially or wholly irrecoverable and loans worth $434,694.57 doubtful or requiring attention. In Huckvale's view, Branch losses from these loans would eventually exceed $3.5 million. He considered the Sparling account alone placed "the entire operations of the Treasury Branches in serious jeopardy."[90] Shortly thereafter, he recommended that the Treasury Branch discontinue all of its loaning activities![91]

Unfortunately, there is very little information available about why the Sparling loans continued to increase after Mannix's takeover. Most of the increases were to CESSCO and Sparling Tank. As at 31 March 1954, the loans stood at: CESSCO - $668,467.02, Hupp & Elliott - 29,024.41, Sparling-Davis Co. Ltd. - $3,191,916.14, Sparling Tank Ltd. - $500,000, and Hupp Ltd. - $150,000. When the CESSCO account, which was responsible for the major portion of the increase, is examined, some of the reasons for Huckvale's frustration become clear. He had not had access to any current audited financial statement. Mortgages were not registered and securities on equipment were not in order. He considered that accounts payable were excessive and securities were inadequate and warned that the CESSCO loan was also following the pattern set by Sparling-Davis.[92] The problems were not limited to CESSCO. Mannix had failed to supply the land and chattel mortgages on the assets he took over[93] and had also stopped filing monthly statements on the operations of both Sparling Davis Ltd. and Hupp Ltd. In spite of all its problems with Sparling, nothing had really changed at the Branch.

The renewed pyramiding of the Branch's Sparling loans and the problems Huckvale identified with the CESSCO account were symptoms of the major problem which was separating Mannix and the Manning government: the earnings of Mannix's Sparling companies, in Mannix's view at least, were insufficient to reduce the loans. Unlike when this difficulty arose after the agreement between Mannix and O'Sullivan, the government could not provide increased contract work to the new Sparling companies because it did not engage in pipeline construction or storage tank construction. The government tried other means to assist Mannix. The Marketing Board continued to finance CESSCO even though Board assistance was supposed to be of short term duration while a firm was becoming established. In recognition of both the value of CESSCO in employing Albertans[94] and CESSCO's loans to the Branch,[95] the Board continued to provide CESSCO with $100,000 a year even though some of CESSCO's inventory items were pre-manufactured[96] and CESSCO did not always clear its inventory.[97] That policy remained in effect throughout the 1950s,[98] but the Board's help was miniscule compared to the total debts Mannix's Sparling companies owed the Branch.

Although the government could not directly provide these companies with contract work, Olive, whether acting independently or on behalf of Mannix Ltd., met with Manning in February 1954 to suggest that the government advance the names of Sparling Davis Ltd. and Hupp Ltd. "in connection with contracting work anticipated in the gas gathering field in Alberta." Following the meeting, Olive provided Manning with a memo confirming the capabilities of the two companies and assuring Manning of their willingness to supply "full information as to construction costs covering the erection of pump stations, of gas gathering work and of gas transmission lines." Olive also offered to act as intermediary in any future discussions[99] -- a role he had some experience with. It will be recalled that Prowse charged just fourteen months later, during the 1955 election, that the Manning government had been bringing pressure to bear on oil companies to use the Sparling companies for their oil field construction work. Unfortunately, a full investigation of this issue lies beyond the scope of the present work, however a brief discussion of Mannix's relations with the Manning government in the next chapter will demonstrate that there is some reason to believe that Prowse was once more correct in his analysis.

Endnotes

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1. "Budget Speech Delivered by The Hon. E.C. Manning Treasurer of the Province of Alberta, March 4th, 1946," Edmonton. A. Scnitka, King's Printer, 1946. By 1953, the AIC had lent a total of $4,389,585 of the $5 million which was its statutory maximum but only $1,795,445 of that was current. "Budget Speech Delivered by The Hon. E.C. Manning Treasurer of the Province of Alberta, March 6th, 1953," Edmonton. A. Snitka, King's Printer, 1953.

2. A.J. Hooke still presented this view of the Board in the 1970s. _30 + 5, I Know, I Was There_. (Edmonton: Institute of Applied Art, 1971), 129.

3. Powe, "Social Credit Interim Program," 246-47.

4. "Budget Speech Delivered by The Hon. Ernest C. Manning Treasurer of the Province of Alberta," 5 March 1951, Edmonton. A. Scnitka, King's Printer, 1951.

5. Government of Alberta. _Post-War Reconstruction Committee, Interim Report to the Legislature of Alberta, March 10th, 1944_, 1944.

6. This argument is based on a review of available auditor's reports on the Branch from the late 1950s. The reports list mainly the same large troubled loans as in the early 1950s and certainly, after the Sparling fiasco, no loans were allowed to pyramid into the millions of dollars. "Provincial Auditor to Hawkins," 25 July 1957, 79.25; "Provincial Auditor to F.G. Stewart, Deputy Provincial Treasurer," 30 July 1959, 79.25.

7. "Olive to Manning," 25 July 1955, 69.289/1772B.

8. "Minutes," Loans Committee, 23 Feb. 1949, 72.467.

9. "Minutes," Alberta Provincial Marketing Board, 6 Oct. 1948, 2 Nov. 1948, 67.110. The Alberta Provincial Marketing Board will hereafter be abbreviated to PMB.

10. "Hawkins to Manning," Feb. 1949, 69.289/1772A.

11. "Minutes," Loans Committee, 23 Feb. 1949, 72.467.

12. "Hawkins to Manning," Sept. 1949, 69.289/1772A.

13. _Ibid_.

14. "Olive to Manning," 9 March 1953, 69.289/1772B.

15. "R.B. Skinner to Chairman of the Loan Committee," 11 Jan. 1950, 69.289/1773.

16. "Minutes," PMB, 21 March 1949, 67.110.

17. "Minutes," PMB, 28 Feb. 1949, 67.110.

18. "Minutes," PMB, 13 Sept. 1949, 67.110.

19. "Minutes," PMB, 13 Sept. 1949, 67.110.

20. "Budget Speech Delivered by The Hon. E.C. Manning Treasurer of the Province of Alberta March 4th, 1949," Edmonton. A. Snitka, King's Printer, 1949.

21. "Minutes," Loans Committee, 14 Dec. 1949, 72.467.

22. "Fraser to Manning," 19 Jan. 1950, 69.289/1773.

23. "J.T. Sparling to Loans Committee," 13 Jan. 1950, 69.289/1773.

24. "Fraser to Manning," 19 Jan. 1950, 69.289/1773.

25. "J.T. Sparling to Chairman of the Loans Committee," 10 Jan. 1950, 69.289/1773.

26. Richards and Pratt, Priarie Capitalism, 163.

27. "Sparling to Loans Committee," 10 Jan. 1950, 69.289/1773.

28. Sparling-Davis owed $175,000 to the Branch, $100,000 to the Board and $425,000 to the AIC. CESSCO owed $75,000 to the Branch and $150,000 to the Board and Sparling-Fowler owed $200,000 to the Branch. "Fraser to Manning," 19 Jan. 1950, 69.289/1773.

29. "Hawkins to Manning," 15 March 1950, 69.289/1772A.

30. "J.T. Sparling to Chairman of the Loan Committee," 10 January 1950, 69.289/1773. Sparling requested approval of the CESSCO and Sparling-Davis loans be given the next day. Available documents would indicate that the Committee requested a clarification of the relationship between CESSCO and Sparling-Davis then gave tentative approval on 12 January, subject to the agreement of the Marketing Board and the AIC since the Branch's increased loans affected their arrangements with these companies. "R.E. Browne, Secretary-Treasurer, Loans Committee, to K.J. Hawkins," 12 January 1950, 69.289/1773; "Minutes," Loans Committee, 19 Jan. 1950, 72.467.

31. "Minutes," Loans Committee, 8 March 1950, 72.467.

32. "Minutes," Loans Committee, 8 March 1950, 72.467; "Fraser to Manning," 9 March 1950, 69.289/1773.

33. "Hawkins to Manning," 15 March 1950, 69.289/ 1772A.

34. "Minutes," Loans Committee, 12 April 1950, 72.467.

35. "Minutes," Loans Committee, 4 Oct. 1950, 22 Nov. 1950, 72.467.

36. "Minutes," Loans Committee, 9 May 1951, 72.467.

37. "Minutes," Loans Committee, 20 Dec. 1950, 72.467.

38. "Minutes," Loans Committee, 20 Dec. 1950, 72.467.

39. "Minutes," Loans Committee, 28 March 1951, 72.467. Also see Richards and Pratt, Prairie Capitalism, 163.

40. "Minutes," Loans Committee, 2 Apr. 1952, 72.467.

41. "Olive to Loans Committee," 19 Nov. 1951, 69.289/1773.

42. "Minutes," Loans Committee, 9 May 1951, 72.467. The November budget, which is referred to in the May minutes, had established $195,000 working capital for "winter equipment overhaul and other various essential capital outlays." Some of the capital expenses, such as the AIC payments and a rental purchase agreement involved in the joint ventures could be predicted; together they amounted to $85,000, leaving a $110,000 balance. Later, the Branch was faced with $60,00 for equipment overhaul and $100,000 for "winter overhead." Actual expenses thus exceeded the budget by $50,000.

43. Ibid.

44. "Minutes," PMB, 26 May 1950, 30 June 1950, 67.110.

45. "Minutes," PMB, 11 Sept. 1950, 67.110.

46. "Minutes," PMB, 21-22 Sept. 1950, 67.110.

47. "Minutes," PMB, 11-13 June 1951, 19 July 1951, 67.110.

48. "Minutes," Loans Committee, 19 July 1951, 72.467. Perhaps in recognition of the fact that the Branch was basically bankrolling CESSCO, the Board decreased its deposit requirement from $22,5000 to $20,000.

49. "Minutes," PMB 9 Aug. 1951, 17 Sept. 1951, 19-20 Sept. 1951, 67.110.

50. "Minutes," PMB, 19-20 Nov. 1951, 67.110.

51. "Minutes," Loans Committee, 25 July 1951, 30 July 1951, 72.467.

52. "Huckvale to Manning," 9 Aug. 1951, 69.289/1772B.

53. "Olive to Manning," 7 Dec. 1951, 69.289/1773.

54. "Sparling-Davis Co. Limited, Analysis of Projects at October 31, 1951," 69.289/1773.

55. "Minutes," Loans Committee, 19 July 1951, 72.467.

56. "Sparling-Davis Co. Limited, Analysis of Projects at October 31, 1951," 69.289/1773.

57. "Olive to Loans Committee," 19 Nov. 1951, 69.289/1773.

58. "Minutes," Loans Committee, 19 Dec. 1951, 72.467. Sparling-Davis's debts to the end of the year were estimated to be $2,769,694.

59. "Olive to Loans Committee," 27 Nov. 1951, 69.289/1773. Although available documentation does not indicate Sparling's response to this offer, he appears to have accepted in return for some unspecified role in future operations. Ibid.; "Olive to J.T. Sparling," 6 Dec. 1951, 69.289/1773.

60. "Olive to Manning," 9 March 1953, 69.289/1772B.

61. "Minutes," Loans Committee, 26 Sept. 1951, 72.467.

62. "Olive to Manning," 7 Dec. 1951, 69.289/1773.

63. "Olive to Manning," 9 March 1953, 69.289/1772B.

64. "Olive to Manning," 9 March 1953, 69.289/1772B.

65. "Minutes," Loans Committee, 2 April 1952, 72.467.

66. "Olive to Manning," 9 March 1953, 72.467.

67. "Minutes," Loans Committee, 19 Dec. 1951, 17 July 1952, 72.467. The July figure estimated total loans of $3,632,166 by the 15th of August.

68. "Olive to Manning," 9 March 1953, 69.289/1772B.

69. "Minutes," PMB, 21 May 1952, 67.110.

70. "Minutes," PMB, 6,7 Oct. 1953, 67.110. For some reason there is no record of the transaction in the Board's 1952 minutes, but it is referred to in the October 1953 minutes.

71. "Sparling-Davis Co. Ltd. Comparative Statement," 29 Feb. 1952 to 30 Nov. 1952, 69.289/1772B.

72. "Olive to Manning," 9 March 1953, 69.289/1772B.

73. "Order-in-Council #1115/55," n.d., 69.289/2281C. The document, which is in the Premier's Papers, is actually a working copy of the

eventual response Olive filed to 1015/55, Section C, not 1115/55. It seems likely that the working copy was edited by Manning. The working copy has several crossed out sections, including the reference to the Branch's decision to stop financing Sparling due to incompetence, which did not appear in the final version. For the final version, see "Olive to Hawkins, re: Order-in-Council 1015/55," 12 September 1955, 69.289/2281E.

74. "Olive to E.W. Hinman, Provincial Treasurer," 18 Oct. 1956, 69.289/2121.

75. There is some confusion regarding Olive's dates. His reference to 31 December refers to all the Sparling companies rather than any particular one. ("Order-in-Council #1115/55," n.d., 69.289/2281C.) Sparling-Davis's quarter ended on 30 November not 31 December. However, Sparling-Davis Tank's quarter ended on 31 December. Other available documents suggest that the Branch was acting on the basis of both of these audited statements, which again would indicate the decision was made in January 1953. ("Olive to Manning," 9 March 1953.)

76. For references to the negotiations, see "Olive to Deputy Provincial Treasurer," 12 Sept. 1955 69.289/2281E; "Olive to Manning," 9 March 1953, 69.289/1772B; "Olive to Manning," 11 Sept. 1953, 69.289/1772B.

77. In January the debt was $3,412,197 and in September it was approximately $3.5 million. "Olive to Manning," 9 March 1953, 69.289/1772B; "Olive to Manning," 11 Sept. 1953, 69.289/1772B.

78. "Olive to Hinman," 18 Oct. 1956, 69.289/2121.

79. Ibid.

80. Ibid.

81. "Olive to Loans Committee," 27 Nov., 1951, 69.289/1773.

82. "Minutes," PMB, 5 Aug. 1953, 67.110.

83. "Minutes," PMB, 31 Aug. 1953, 67.110.

84. The purporse to which the loan was put is referred to in "Minutes," PMB, 31 Aug. 1953, 67.110.

85. "Minutes," PMB, 6,7 Oct. 1953, 67.110.

86. "Minutes," PMB, 14 Oct. 1953, 67.110.

87. "Olive to Hinman," 18 Oct. 1956, 69.289/2121.

88. "Huckvale to Manning," 15 July 1954, 69.289/1772B.

89. "Huckvale to Manning," 14 Jan. 1954, 69.289/1773.

90. "Huckvale to Manning," 15 July 1954, 69.289/1772B.

91. The recommendation is referred to in "Hawkins to Manning," 6 Aug. 1954, 69.289/1772B.

92. "Report and Accounts of Treasury Branches," C.K. Huckvale, 31 March 1954, 69.289/1772B.

93. "Report and Accounts of Treasury Branches," C.K. Huckvale, 31 March 1954, 69.289/1772B.

94. "Minutes," PMB 30 Nov., 1 Dec. 1954, 67.110.

95. "Minutes," PMB, 14, 15 Dec. 1955, 67.110.

96. "Minutes," PMB, 30 Nov., 1 Dec. 1954, 67.110.

97. "Minutes," PMB, 9-10 April 1958, 69.245.

98. "Minutes," PMB, 14 Jan. 1957, 9-10 April 1958, 27-28 Jan. 1959, 69.245.

99. "Olive to Manning," 8 Feb. 1954, 69.289/1772B.

Chapter 7

Abandoning Devious Routes

[i]

When J. Harper Prowse delivered his Company A, Company B charge to the south Edmonton meeting of his supporters on 14 June 1955, it proved to be a decisive event in Alberta political history. The charge did not lead, as Prowse wished, to the defeat of the Social Credit government of Ernest C. Manning, but it did sustain during the last two weeks of the campaign the public doubts which had been growing ever since the start of the year about the government's honesty and integrity. It suggested a level of corruption which went beyond allegations of ministerial conniving for personal gain; it hinted at a reason for the continuing deficit of the Treasury Branch; it offered a plausible explanation for the concerns which the province's contractors had been expressing about the government's refusal to open bids in public; and it seemed to explain why Manning refused to allow a public inquiry into both the Branch's loans policies and the government's contract awards. The Company A, Company B charge then was instrumental in finally forcing Manning to agree to a Royal Commission; it contributed to Social Credit's serious election losses; and it later forced the Manning government to undertake a massive cover-up during the Royal Commission hearings to hide its guilt and to guarantee that it would be absolved of blame. Prowse's Company A, Company B charge might also be credited with forcing Social Credit to abandon its drive to achieve a social credit economy by following devious routes.

Even though the Manning government was returned to power with a fairly comfortable majority and even though the Royal Commission cleared it of all charges, the government recognized that it could no longer afford the political costs of continuing its previous policies. It could no longer afford its abortive experiments with applied social credit economics in the Treasury Branch and it could no longer afford its hostility to conventional banking practices. The philosophical orientation of the government, its management of the Treasury Branch, and even the way the party operated would all have to change. Although far more research is required in each of these areas, a few tentative suggestions can be made about the transition Social Credit went through following the 1955 election.[1]

[ii]

The Treasury Branch was the institutional embodiment of the concept of devious routes. When the Branch was founded, it provided an alternate institution to those of the financial tyranny, and Social Credit hoped that, by patronizing the Branch, the people of Alberta would be able reach the social credit economy they had demanded. To the government and to the various Social Credit groups throughout the province, the promotion of the Treasury Branch was equivalent to the promotion of social credit. Even the managers and the Branch's clients were participating directly in the government's plan to thwart the powers of finance. The goal was social credit; the instrument which would achieve social credit was the Treasury Branch; and the managers, promoters and clients of the Branch were all allies in the battle for social credit.

Although the overtly social credit policies of the Branch were done away with by 1943, and the Branch appeared to adopt the precepts of orthodox economics, the basic orientation of the government and the Branch remained unchanged. Orthodoxy was merely a guise behind which the pursuit of social credit continued essentially unabated. Following Social Credit's alliance with business against socialism in the 1944 election and the conclusion of World War II, the Treasury Branch's loans policy became the main weapon which the government used to create additional credit.

The government's management of the Branch's loans policy in the postwar era might have been predicted from the findings of the Post-War Reconstruction Committee which the Manning government had established in 1943. The Committee's 1944 Interim Report endorsed the views of the 1931 British MacMillan Committee on Finance and Industry regarding the creation of credit: "the bulk of the [banks'] deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities a bank creates a credit on its books, which is the equivalent of a deposit."[2] The

Committee's final Report in 1945, lamented that the provincial credit structure

> is at present serviced in the main by the Chartered Banks with the Government Treasury Branches system providing a supplementary service. However, the latter so far having been limited in their operations by lacking the scope of creating money by pyramiding a credit-loan structure on the basis of their cash deposits, the chartered banks actually control the monetization of the real resources of the province -- i.e., the ability to produce wanted goods and services.

The Committee argued that the way for Alberta to gain control over credit creation was to expand the Branch system throughout the province and attract a larger clientele until "the bulk of the business within the province was being done through this channel."[3]

In the postwar era as the Treasury Branch's volume of deposits increased, the government set about deliberately to create credit by pyramiding Treasury Branch loans. When the government pyramided loans, it intentionally chose the major industrial clients of the Branch as the recipients in the belief that their augmented purchasing power would lead to the growth of both the clients and the Treasury Branch. The Branch's pyramiding of loans was also carefully coordinated with the policies of other government branches and agencies, so that the Branch could derive maximum benefit from the government's overall spending power. The government was not interested in creating debt and it also did everything within its power, including allocating government contract work to Treasury Branch borrowing customers, to guarantee that the loans would be successfully repaid. The success of the Branch's clients, together with its liberal loaning policy, would, in turn, attract more clients.

The Manning government's support for social credit economics constituted far more than just the lip service which historians have argued was all Manning offered to the movement's founding philosophy. Although, as was suggested in Chapter 6, the Manning government's direct financial investment in its social credit policies was relatively limited, the government's commitment to its founding philosophy must also be measured by its willingness to allocate government contracts to Treasury Branch customers, to subvert the competitive bid process, to place such agencies as the AIC and the Marketing Board in jeopardy through their support for Branch customers, to deceive the public, and then to risk discovery and political defeat. The Alberta government's commitment to social credit economics was serious enough to transform O'Sullivan from a small company into the second largest highway construction firm in the province, and to make Sparling into a major supplier of oil field equipment and an important pipeline construction firm. These were not the only highway construction firms to benefit from being Branch clients.

Based largely on the information which was prepared for the Royal Commission, including some information which was withheld, it appears that some other highway contractors who were borrowing customers of the Branch were also provided with contract help, though not with pyramided loans.[4] It will be recalled that the Commission Chair ruled that the government did not have to provide evidence on all highways contracts which were assigned to the Branch.[5] This meant that assigned sub-contracts were not revealed. While it is not surprising that a number of construction firms which were Branch borrowing customers would have had assigned sub-contracts during the period under review,[6] there is some evidence to suggest that sub-contracts were more apt to be given to Branch borrowing customers when the main contract was also held by a contractor with responsibilities to the Branch. For instance, it will be recalled that, at Olive's request, Helman withheld contract 552/49 (Table 4), a negotiated contract which the DPW allocated to Thordarson Construction in 1949. Thordarson was apparently experiencing difficulty repaying its loans throughout this period and it was later provided with sub-contract work by Mannix Ltd., on negotiated contract 660/51 in 1951 and 1952. The sub-contracts were both assigned to the Treasury Branch.[7] It seems quite possible that the government, which had allocated 660/51 as part of its package of support for Mannix, had also insisted on the sub-contract work for Thordarson so that it could help out the Branch twice with one contract.

There is also some indication that contractors were more apt to receive extensions to their original contracts if they sub-contracted work to Branch clients. For example, Schuler Construction's 1947 Branch loan carried over into 1948, at which point it was classified as 'unsatisfactory' by the Loans Committee. At the time, Schuler was working on a sub-contract to McKelvie Construction which was assigned to the Branch. Perhaps coincidentally, McKelvie was provided with an extension on contract 492/48. Whether or not the extension was a coincidence, there is no doubt that the DPW was trying to help Schuler repay its Branch loans during this period. For instance, in compliance with the Royal Commission's terms of reference, Schuler Construction's contract 523/48 was listed among those contracts held by firms with or responsible for Branch debts. However, the government showed the contract as being for work on the highway from Monarch to Champion.[8] In fact, the work had originally been for Monarch to Barons. At the time, the Branch had restricted Schuler's credit due to his unpaid loan of $43,035. An extension for work from Barons to Champion was then provided, bringing the total value of the assigned contract up to $43,330. The Branch then immediately restored operating credit.[9] Once Schuler had completed the work and the Branch had derived the maximum possible reductions on its loans, it once more restricted credit.[10] Schuler continued to have difficulty repaying the balance of the loan and the Branch took an unusually hard line until the firm was close to bankruptcy. At that point, Schuler tried to buy into McKelvie Construction by allowing his equipment to be used on McKelvie contract 613/50. Following the 6 September 1950 Loans Committee meeting, Olive interviewed Schuler about both his debt and his arrangement with McKelvie.[11] On 26 October 1950, McKelvie was again given an extension, this one on contract 613/50.[12] Given the government's determination to assist the Treasury Branch whenever possible, it is likely that such extensions were not just coincidences.

In 1946 and 1947 Schuler Construction may have been the beneficiary of another form of assistance which the DPW provided to Branch customers: road work without any official contract, usually with all earnings assigned to the Branch. Although other contractors who were not Branch customers may also have received this kind of work,[13] no evidence to support such a conclusion has been found. Among the firms with Branch loans which Olive listed as receiving such work were Field & Davis in 1946, 1948 and 1951, J. E. Layden in 1947, 1950 and 1951, Shaban & Smith in 1948, and Mix Brothers in 1947, 1948, and 1950.[14] The loans of these firms were not necessarily in trouble but neither had O'Sullivan Construction's loan been in trouble when the DPW began offering it support. The earnings in every case except for Mix Brothers in 1947 and 1950, were assigned to the Branch.[15] Further research might determine whether the provision of work without any official contract was unique to Branch customers.

Whether or not the DPW directly rigged the competitive bidding process to help other Branch borrowing customers as it did with O'Sullivan may never be known. Nevertheless, although O'Sullivan and Mannix benefitted the most from preferential treatment, it is clear that other contractors benefitted. Even Podgurney Lumber ended up with a contract for government road work when its loans were troubled.[16] One final example might be given. Contract 624/51 to Branch customer C.W. Arkinstall was worth $108,750; the contract was for stockpiling and all Arkinstall's earnings were assigned to the Branch to pay out Arkinstall's $1800 loan. Once $16,259.58 worth of work was completed, the contract was cancelled and reassigned to Mannix-O'Sullivan as 625/51 and later 625/51amended. 624/51, 625/51 and 625/51amended were all withheld from the Royal Commission (Table 4).

Obviously, further research is required if the full extent of the

Manning government's support for the Treasury Branch and for social credit economics in the period prior to 1955 is to be determined. If the support provided by other government departments, agencies and boards approached that of the Main Highways Construction Branch, the AIC, and the Marketing Board, the Treasury Branch might properly be considered the center of the Manning government's economic policy initiatives.[17] Ultimately, the Manning government's commitment to social credit economics may only have been outmatched by the desire to remain in power. But after the 1955 election, that meant the way the Treasury Branch operated and the role government had designated for the Branch both had to change.

The Alberta government's ability and willingness to change the way the Branch operated was abetted by the transformation which had taken place in the cabinet. Since 1950, a number of died-in-the-wool social crediters had left.[18] D.B. MacMillan retired from the cabinet in 1952; J.L. Robinson died in 1953; and C.E. Gerhart, Ivan Casey, and Lucien Maynard were all defeated in 1955. The new cabinet only included two members dating from 1935, Manning and W.W. Cross, and one from the 1940s, A.J. Hooke. The remaining ten members had been appointed in the 1950s. The economic portfolios had passed from the old guard to the new. Hooke was replaced in Economic Affairs by A.R. Patrick, a rookie MLA, while Gerhart's place as Treasurer was taken by Ted Hinman, who had only been a minister since 1954.

It was Hinman's job to oversee the Treasury Branch's transformation into a financial institution which actually practiced the principles of orthodox finance and banking. Hinman was determined to make the Branch both competitive with the banks and profitable by taking advantage of the freedom it enjoyed by not being subject to the Bank Act.[19] For the Branch to become profitable, it had to adopt a more conservative loaning policy, begin eliminating unprofitable branches rather than continuing to expand the system, and protect itself from any losses on the bad loans it had already made. The first serious in-house training program for upgrading the skills of existing staff was also instituted in 1957. Hinman credits Ken Hawkins, his deputy minister, with managing the actual implementation of conventional banking procedures regarding loans and such practices as overdrafts.[20]

Unfortunately, so little information is available about the Branch after 1955 that a detailed analysis of how conventional banking procedures were implemented is not possible at this time. The best available sources are the provincial auditor's reports which indicate that, although the Branch's farm loans continued to reflect such problems as unauthorized overdrafts and inadequate monitoring of both tax arrears and chattels taken as security, loans made to other sectors of the economy were handled more cautiously. Most significantly, there is no evidence of further pyramiding and the auditor was no longer expressing concern about a system-wide flaunting of conventional banking procedures.[21]

The Branch's apparent new respect for conventional loans safeguards, together with its decision to cut back on branches which operated at a deficit, reflected the government's determination to make the Branch profitable. When Social Credit abandoned its plans to expand the Treasury Branch system across the province, it constituted a public admission to the party's supporters that it was at least temporarily abandoning the pursuit of a social credit economy.[22] By closing branches to conform with an orthodox concept of profitability, the government was also admitting that those branches could not command the respect and the patronage of the Alberta public which might have made them profitable. It was a controversial decision and several MLAs fought to keep the branches in their communities alive,[23] but it was also an essential decision.

At the end of 1955, 27 of the province's 48 branches reported a net operating deficit, despite the fact that many were situated in provincial government buildings and paid no municipal taxes and had limited costs for rent and maintenance, thanks to the DPW. Most of the unprofitable branches were located in communities where there were competing banking services.[24] The number of chartered bank branches in the province had increased since the Leduc oil boom, and with the changes in the Bank Act, they were now competing more directly for some of the Branch's business by offering personal loans based on chattel security, housing loans under Central Mortgage and Housing, and farm loans based on stored grain. The public was now more apt to patronize the chartered banks when it had the opportunity. In addition to losing some of its clients to the chartered banks, the Branch was having to pay for higher interest rates on savings accounts, and higher overhead costs for salaries, cost of living bonuses, and even DPW services.[25] The system had to cut its overhead costs, and closing unprofitable branches was one way to do it.

Olive tried to save the Branch from cutbacks by suggesting that the government make the Branch more profitable by increasing government deposits and by providing $5 million in general revenue as a mortgage fund to attract new clientele.[26] But the government was no longer interested in increasing its subsidies to the Branch. According to Hinman, Olive, who was close to retirement, was very cooperative when the Branch began implementing conventional banking procedures.[27] Still, through the remainder of the 1950s, the loans the government had pyramided under Olive's supervision prior to 1955 constituted the single largest threat to the viability of the Treasury Branch.

To counter the threat of its troubled loans, the government had systematically been building the reserve fund for bad loans since 1953 by allocating most of the annual profits from the Branch's operation to the fund. With the reforms which were instituted after the 1955 election, the Branch's profits (Table 18) increased substantially and, of course, so did the reserve fund. The total loans which the Branch made also increased significantly in 1956 and, although the government gave some further consideration to cutting back the Branch's loans[28] it ultimately decided that if the Branch was going to be economically viable it had to provide a consistent loans policy on which its clients could depend.[29] The Branch's total loans continued to increase and for the first time since the 1940s, the Branch experienced fairly steady growth. By 1959, the reserve fund stood at $1,262,606 and Hinman predicted that in another year, if Branch surpluses continued, the

Table 18

Treasury Branch Statement, 1944 - 1959

Date	Deposits	Customers	Reserve Fund (if known)	Loans
Dec. 1944	16,851,652	44,000		
31 Jan. 1945	22,095,000	50,251		3,950,000
31 Dec. 1946	26,529,000	52,626		6,530,000
31 Dec. 1947	25,083,000	54,963		8,600,000
31 Dec. 1948	29,000,000	56,663		9,467,000
31 Dec. 1949	30,073,654	57,205		9,436,000
31 Mar. 1950	30,816,282	54,963	110,014	10,576,286
31 Dec. 1951	32,030,139	56,502	115,729	18,555,917
31 Dec. 1952	38,744,000	58,724	95,761	16,467,000
31 Dec. 1953	40,425,000	60,346	179,626	20,706,000
31 Dec. 1954	40,925,000	60,836	302,788	20,511,307
1955	39,664,713	61,261	406,874	20,932,735
31 Dec. 1956	44,143,036	62,727	465,444	26,226,200
1957	48,610,000	65,665	574,480	28,658,000
1958	55,965,000	67,041	841,000	26,519,000
1959	55,332,902	69,010	1,262,606	34,572,747

Source: Budget Speeches of the Provincial Treasurer.
Edmonton. A.Scnitka, Queen's Printer.

reserve would be sufficient to meet "any contingency."[30] Although Hinman did not say it, the one 'contingency' the government had made sure the Branch did not have to face while it was building up its reserve fund was the failure of the Sparling loan.

The Sparling loan continued to haunt the Manning government through the late 1950s. As was suggested before, the greatest difficulty the government faced in trying to help Mannix pay down the Sparling loans was that it could not simply allocate contract work. Yet, once Prowse had made his Company A, Company B charge, linking the government's treatment of O'Sullivan and Mannix to its treatment of Sparling and Mannix, and once Manning had denied the charge and defended the Sparling account, the government could not possibly allow the Sparling loan to fail. Following the 1955 election, there was considerable sentiment within Social Credit's ranks that the government had to clean up its act. No cleanup could be complete until the Sparling loan problem was resolved. Yet, a solution to the Sparling loan seemed to require an excalation of the very tactics the government should have been abandoning.

There was a stark contrast between Social Credit's public reaction to the opposition's allegations of corruption and its private reaction. Publicly, Social Credit denied all charges and claimed that the Royal Commission's findings completely vindicated the government. Manning greeted the Commission's Report as evidence that justice had been done:[31]

> No one can question the fact the Commission was completely impartial and that it has conscientiously carried out a thorough investigation of all pertinent charges made by the opposition. Its findings speak well for the high standard of Alberta's public administration and should be as gratifying to the public as they are to the Government.

The opposition "stood exposed as political propagandists whose charges and allegations had no foundation in fact."[32]

Privately, even some MLAs who accepted that the opposition attack had been part of a coordinated anti-Social Credit conspiracy, also admitted that reforms were needed.[33] One Socred MLA suggested to Solon Low that the Alberta cabinet ministers needed "to pay more attention to Govt. affairs and less time on making a fortune for themselves."[34] Within the party, Lucien Maynard was generally seized on as a scapegoat to blame for Social Credit's problems, not so much because of the charges Prowse had made against him but because MLAs believed that, as Attorney General, he should have been guarding against any abuse of the system.[35] Manning was reported by one MLA as saying "it was just as well for all concerned" that Maynard was defeated in the 1955 election[36] and the federal caucus even forwarded a petition expressing diminished confidence "as a consequence of his [Maynard's] carelessness and his failure to attend to his duties." Maynard had been the only lawyer in the government and Manning was left in a quandry when it came to replacing him as Attorney General. Still, the federal caucus urged Manning not to hold a by-election to help Maynard find a seat.[37] Manning ended up taking the Attorney General's portfolio himself. In 1957, the man the government had entrusted with its defence during the Royal Commisison hearings, Sam Helman, ran as the Social Credit candidate in a Calgary by-election. Manning publicly promised to make him Attorney General if he was elected,[38] but Helman lost to the Conservative candidate, Ernest Watkins.

Whether or not the government acted on the impulse for reform within its ranks, the Sparling loan must have tempted it to go in the other direction. As was discussed in Chapter 6, after Mannix's takeover, the Sparling loan had not worked out the way Olive had hoped. At first the loan had continued to pyramid, but even after the Branch brought its advances under control, the total loan only decreased from its high of $4,539,407.57 on 31 March 1954[39] to $3,976,874.24 by 31 March 1957.[40] Most of that reduction had occurred by the end of 1955. Between then and March of 1957, the loan had decreased less than $100,000.[41]

According to Hinman, the "last job" Olive undertook before retiring was to try to reach a settlement on the Sparling account.[42] When it came to negotiating with Mannix, Olive was not in a very good position to drive a hard bargain since the government really had no choice -- it had to protect the loan. Olive, himself, had been very slow to recognize the danger which the Sparling loan posed for the Branch. It was September of 1955 before Olive had finally categorized $2 million of the $3,250,204 owed by the Sparling interests (excluding CESSCO) as 'doubtful' of repayment and the remainder as 'slow'.[43] Nevertheless, by October 1956, he was suggesting to Hinman that, if a deal could be negotiated with Mannix for a cash settlement yielding $2 million dollars for the Branch, he "would be prepared to recommend writing off the balance." The balance would have consisted of $1,240,318 of which $363,344.95 was the accrued interest on the loan which had not been collected prior to Mannix's takeover, while an additional, but unspecified portion, was apparently accrued interest since the takeover.[44] Whether or not Mannix would have agreed to such a settlement seems doubtful, but in any case the Manning government could not risk the likely political damage from such a major Treasury Branch loss.

If Olive did reach a settlement with Mannix, no record of it has thus far been discovered. However, a memorandum which was probably forwarded to Hinman from Olive in 1956 suggests the broad outlines of a possible agreement. The memo also suggests that the Manning government may have pressured oil companies to use Sparling for their pipeline and oil field requirements and that it almost certainly used its regulatory power to help Mannix pay down the Branch's Sparling loan. The memo basically details Mannix's stewardship of Sparling-Davis to 31 August 1956 and provides a comparison of Mannix's record in paying down the Sparling loan with the contracts Mannix was either already working on or was hoping to be awarded. It lists 11 construction projects and 4 management contracts for pipeline systems which Mannix Ltd. had been promoting "to create construction work for benefit on Sparling." The contracts were worth $221,000,000 and Mannix had spent $264,000 in their promotion. Among the contracts listed were 3 for work in the Pembina field.[45] The Pembina field had been discovered in 1953 and, with over 1700 wells and 1,732 million barrels of recoverable oil, it was the largest find of conventional oil in Alberta's history.[46] As is well known, Premier Manning gave Mannix a monopoly over the development of the oil transmission system from the Pembina field.[47] The memo valued the three Pembina contracts at $53 million.[48]

It is not clear that Mannix received all 11 contracts listed in the memo; however, it seems quite likely that Mannix's earnings on some of those contracts as they were completed provided the basis for the payments which soon began to reduce the Sparling loan. The Sparling loan showed no sign of significant reductions in the auditor's 1957 report,[49] but by the time of his next available report in July 1959 the loan had decreased by approximately $1.7 million to $2,239,754.56. By then as well, the Branch had made its first investments ever in private companies: $450,000 in Mannix Ltd., $360,000 in Linwood Coal Ltd. (formerly Alberta Coal Company), and $450,000 in an assigned agreement between Linwood and the CPR.[50] The special relationship between Mannix and the Manning government was obviously still in effect.

Although the Manning government had continued its preferential treatment of Mannix with the award of the Pembina monopoly, it was no longer with the intent of channelling economic development through the Treasury Branch to encourage the growth of the province's social credit infrastructure. When it came to provincial policies for economic development, after 1955, the Manning government was paying little more than lip service to its founding philosophy. Hinman's first budget speech in 1956 referred to the problems created by the "fettering" of the existing financial system,[51] and his second reaffirmed the government's desire "to implement as far as possible, those principles and philosophies which are basic to Social Credit"[52] but, by his third budget speech in 1958, Hinman safely omitted the government's advocacy of social credit economics.[53] It was the first time the budget had contained no reference to social credit economic philosophy since Social Credit had formed the government in 1935.

Following the 1955 election, Manning also continued to insist that Social Credit "stands for fundamental reform in the field of fiscal policy."[54] His government flirted with a citizen's dividend -- perhaps to satisfy disgruntled party members after the diminishment in importance of the Treasury Branch -- and he even introduced his government's five year "anti-recession development program" in 1958 with the argument that the program was necessary to counter the effects of the "present outmoded, orthodox financial system,"[55] but his advocacy of social credit was basically becoming a way of differentiating Social Credit from the Progressive Conservative party[56] and the Five Year Plan had more to do with politics than economics.[57] The true believers in social credit now had willingly to suspend their disbelief or dedicate their energies to fighting the anti-Social Credit conspiracy and working for the national movement. Not surprisingly, that is where the Alberta party directed its remaining social credit aspirations as well.

The Alberta Social Credit party's immediate problem in the wake of the 1955 election had been to explain to the membership the reasons for the opposition's victories while at the same time absolving Social Credit's leaders of responsibility. It also had to repair the gaping holes which had been created in its constituency level organization by the election of 24 opposition MLAs. Once it became obvious that the government was abandoning the pursuit of a social credit economy in Alberta, the party's longer term problem was to find something to replace the unifying and energizing force of the movement's economic philosophy. The party looked for a solution to its problems in a revival of its conspiratorial understanding of history, internal party reforms which more clearly recognized the primacy of the elected representatives in party decisions, and a brief renewal of the On to Ottawa Drive.

The anti-Social Credit conspiracy was invoked to explain to the party faithful the government's unexpected election losses. The strategy dovetailed nicely with the party's more general conspiratorial understanding of history and particularly with Manning's claims during the election period of a Liberal-Conservative-CCF alliance working against Social Credit. For true social credit loyalists there had always been a dichotomy between the elect -- themselves -- and the damned -- the party's opponents, who were often characterized as evil or mistakenly consorting with evil.[58] Manning had encouraged a belief in that dichotomy. Following the expulsions of 1948, he had emphasized the evil nature of the anti-Social Credit conspiracy as part of his effort to regroup the membership and to focus their attention away from the party's problems and towards the On to Ottawa Drive. He had forewarned party members that one of the "slimy tactics" used by "those who wish to destroy" Social Credit was to employ the members themselves to undermine one another's confidence in their own government.[59] He had also explained to party members that as they battled to expand the Social Credit movement across Canada, they wrestled "not against flesh and blood... It is purely a struggle against Evil."[60] The same tactic of focussing membership discontent on the external enemy -- the anti-Social Credit conspiracy -- was employed at the 1955 Social Credit convention.

Party members were concerned by the failure of the Social Credit organization in the 1955 election, by the perceived inadequacy of the party's educational program, and by the opposition's 'unfair' use of the preferential ballot to defeat some Social Credit candidates on second count.[61] Some members were also troubled that the government had allowed itself to deteriorate to the extent that it could be subject to the opposition's charges[62] -- and perhaps secretly worried that some of the charges might be true. The party's convention strategy had to counter all of these concerns.

Mrs. Rose Wilkinson, who had been re-elected in Calgary, welcomed the women delegates to the Social Credit Women's Association Convention, held one day prior to the party's annual convention, with an urgent plea that they study social credit and "understand the work of the enemy -- The Satanic Power."[63] Orvis Kennedy, in his opening day address to the delegates, accused the opposition parties of "sleeping together in the same camp,"[64] while Manning linked the brainwashing and propaganda techniques of the Liberals to those of the Communists and, according to The Albertan, warned the delegates that "they were the only source of truth and urged them to 'counteract aggressiveness for evil with aggressiveness for good.'"[65] From the party's slogan -- 'Be Sure You Are Right - Then Get In and Fight' -- to the closing address, party leaders urged the delegates to strike back at the conspiracy. They also gave the members a target when they championed a plan to abolish the preferential voting system which, they admitted to the delegates, the anti-Social Credit conspiracy had 'unscrupulously' used to defeat Social Credit candidates in the election.[66] The party also moved to strengthen its educational program, by publishing 18 'Social Credit Lessons' by R.A. Cantelon, its internal communication, by publishing a monthly party magazine innocuously titled The Busy Bee, and its constituency level organization.

As was suggested in Chapter 3, long before 1955, the Alberta Social Credit party had become an MLA-dominated, cabinet-led organization, but it had continued to think of itself as a grass roots party. Reforms had been designed to revive membership enthusiasm and activity in the anticipation that Social Credit's membership would ultimately provide the energy to catapult the movement to success in its On to Ottawa Drive. With the 1954 hiring of two organizers, Social Credit had begun to recognize that it could no longer rely as heavily on volunteers to maintain an effective electoral machine. In the years following 1955, there seems to have been a growing tendency for the party to adopt policies which accepted the government's domination of the party and attempted to build on that strength. After the election, the contracts of the two organizers were extended, while the party's organizational efforts were directed less towards the membership as a whole and more towards involving the party's activists at the constituency level -- including the 'key men' who were the designated party contacts in each constituency -- in government initiatives.

The new importance of the key man was partly the result of Social Credit's election losses. There were now 24 orphan constituencies in each of which the key man could potentially serve as an alternate MLA. The key man's public profile could be enhanced by his participation in the increased cabinet tours which were being planned[67] and even by assisting in the selection of local candidates for civil service positions.[68] There was nothing particulary unusual about the alternate MLA system; it was the same system the Liberals tried to use with the help of the federal Liberal government to build the local reputations of potential MLAs in Social Credit seats,[69] and Social Credit had also been working with an alternate MLA for some time in Grouard provincial constituency in the hopes of regaining it from the Liberals.[70] The difference was in the increased attention Social Credit was now devoting to the key men and other party activists to make them feel part of the government team.

Despite Social Credit's renewed organizational drive, party membership predictably declined from its election induced high of 16,255 on 31 December 1955 to 7,944 by the following November.[71] To make up for its declining membership activity, Social Credit in the future relied more on election advertising. To discover the information which the membership was no longer providing, Social Credit hired Central Surveys Incorporated of Shenandoah, Iowa to undertake periodic scientific polling of the Alberta public.[72] Although Social

Credit's increased use of paid organizers, key men, advertising, and scientific polling all decreased the party's reliance on membership activity, when party leaders nevertheless had to cajole the membership into action for some reason, the invocation of the anti-Social Credit conspiracy remained essential. As late as 1958, party president Orvis Kennedy urged the key men to be[73]

> ever watchful for the actions of the opposition to our movement in their attempt to undermine, misrepresent and discredit the principles for which we have fought for almost a quarter of a century. By opposition we do not mean just our political opponents, but those who would seek to destroy our way of life through the imposition, subtly or openly, of a totalitarian state, or keep from us, through adherence to systems of maldistribution, those things which rightfully belong to us and could bring us the highest standard of living in the world.

The conspiracy was fundamental to Social Credit's understanding of its own role in history. It also continued to be vital to the national movement.

With the decline in importance of the Treasury Branch following 1955, party leaders had to place greater emphasis on positive alternatives in order to satisfy the membership that the party's commitment to social credit philosophy was not dead. Together with the citizens' dividend, party leaders appear to have once more laid stress on the battle for social credit at the federal level. Throughout the 1950s, the Alberta party was the mainstay of the national party and Manning was its spiritual leader and often its *de facto* political leader as well.[74] Solon Low occasionally chaffed at the "domination of the powers in Alberta,"[75] but he depended on Manning and the Alberta party for money and organizational help and for the perks which helped to keep him elected in his federal constituency. In the early 1950s, the Alberta party's commitment to the national movement was hardly surprising considering that Manning was still actively considering the national leadership himself.[76] The advent of W.A.C. Bennett in British Columbia had temporarily appeared to offer Low and the national movement an alternate source of dollars and workers, but both Low and Manning differed with Bennett over Social Credit philosophy.[77] In turn, the B.C. party had become increasingly resentful of the Alberta party's attempts to dictate strategy on matters ranging from the original selection of Bennett as leader[78] to questions of policy and philosophy.[79] Despite the emergence of the B.C. movement then, the federal party could not outgrow its dependence on the Alberta party.

Thus, following the 1955 election, Low was probably glad that the Alberta party did not plan to cut back its financial commitment to the national movement and heartened when Orvis Kennedy embarked on a new round of organizational work in the federal field. Unfortunately the new Alberta initiative seems to have pushed the federal party into debt[80] without creating any new strongholds for the party. One difficulty Low faced was that although the Alberta party's financial contribution sustained the national party, Orvis Kennedy and not Low controlled how the money was spent.[81] In the view of Social Credit MP Ernest Hansell, it was largely due to Kennedy's wasteful expenditures in ill-fated organizational work that the national party was encountering debt.[82]

Despite the debt, the Alberta party continued to support the national party through 1957 -- it was now basically the only field in which the Alberta party was pursuing a social credit solution. When B.C. joined Alberta in promising support for a major offensive in the coming federal election, Low optimistically looked forward to Social Credit forming the official opposition. However, B.C.'s final commitment for the June 1957 federal election was less than Low had anticipated.[83] By October of 1957 both Alberta, which no longer believed it should have to finance the national movement on its own, and B.C. had stopped all donations to the national party.[84] In 1958, Manning campaigned only in Alberta.[85] After the province's Social Credit MPs were wiped out by Diefenbaker's landslide victory, Manning still argued that Social Credit had to continue its effort in the national field,[86] but his former conviction was missing. The On to Ottawa Drive was finished and with it, the Manning government's pursuit of social credit was finally at an end.

The demise of the Manning government's social credit ambitions did not hurt the party electorally. The government had long since buried its social credit philosophy behind promises of providing good government. Behind the scenes, the pursuit of social credit by following devious routes had long remained vital to the government but it had learned its lesson in 1955. Now, the reality of a healthy provincial economy and above all the powerful force of Manning himself were what sustained Social Credit.

Manning encouraged the aura of invincibility and incorruptiblity which was built up around his leadership. In many ways he was like Aberhart. The two relied on many of the same political tactics, from vitriolic denunciations of political opponents, to a reliance on facts, figures and authority rather than logic to validate arguments, to the setting up of straw men to attack. They also shared similar religious views,[87] and each cultivated his image as a religious leader.[88]

It was typical of Manning that during the opposition's attack in the spring of 1955 he wrote to one of his followers:[89]

> My greatest concern in all matters relating to public life in this province is that nothing, under any circumstances, will ever reflect in any way on the Christian testimony which we have tried to maintain and in which we have sought to help others realize that right must always be put ahead of expediency or mere political interest.

For most Albertans, Manning's sincerity and his honest Christian approach to government were never in doubt. But J. Harper Prowse believed that Manning used his image as a religious and moral leader as a screen, behind which operated a partisan and corrupt Social Credit government. To some extent, Prowse was right.

Behind the facade of incorruptibility -- the halo -- Manning was an astute and often pragmatic political leader who was quite willing to bend 'absolute' truth for partisan gain. Although further research might establish whether members of his government used their positions of public trust and power for personal advantage, that was probably not the case with Manning.[90] Yet under Manning's leadership, the Alberta Social Credit government created a fiction of the Treasury Branch operating as an orthodox banking institution; the Main Highways Branch rigged contracts to benefit the Treasury Branch and its customers; and the government lied to the public and to a Royal Commission to cover up its guilt.

Manning's abuse of his position of public trust was not for personal gain. For Manning, as for his government, the ethical questions which were involved when Social Credit deceived the public were resolved through reference to the battle against the conspiracy and the simple dichotomy between good and evil. In that battle, Social Credit was always on the side of good. It was a force for Christian values and the opposition, whether wittingly or otherwise, was always linked with the forces of the conspiracy and of evil. When the Treasury Branch's loans problems or the DPW contract rigging were threatened with discovery, Manning covered up his government's wrongdoing and provided his personal guarantee that his government was honest. It was necessary for the movement.

Prowse viewed Manning's defence of his government as pure partisan politics. The Liberals were certain that Manning's halo was all that stopped them from exposing the corruption of the Social Credit government. By 1955, they also believed that it was Manning's reputation as much as the government's which was on the line. In the spring of 1955, Prowse's colleague Hugh John Macdonald charged that the reason the government was not allowing an investigation of the opposition's charges was to protect the myth "that a government led by a good man like Mr. Manning could do no wrong."[91] It was an astute observation and, particularly after Prowse made his Company A, Company B charge, Manning had little choice but to try to block any inquiry which might discover the truth about the Branch's loans and the DPW's contract awards.

A.J. Hooke relates that in the 1940s Social Credit MLAs sometimes discussed the idea of just 'creating' a million dollars through a Treasury Branch loan in order to put the banks on the spot and expose the workings of the financial system:[92]

> Let us through the Treasury Branch ... say to somebody or some outfit: 'You need a million dollars; we'll create a million dollars same as the bank does ... we'll charge you less interest than the bank does because it doesn't cost us anything to create it except to pay the salary of a clerk ...'

That is essentially what the government had done with the O'Sullivan and Sparling loans and it had not worked.

The Company A, Company B charge then struck at the heart of the government's strategy of following devious routes to a social credit economy. It threatened to reveal that the Manning government's application of social credit economics through the Treasury Branch was a catastrophic failure and that the movement's economic ideology was naive and unworkable. But at the same time it would reveal that the Branch's and the government's public reputation for sound and orthodox management of public funds was a sham. Both the image of the Manning government believed in by party members and the image believed in by the general public would be shattered. The charge threatened to discover the government's rigging of contract awards and destroy the Manning government's reputation for honesty. It also challenged the Manning government's reputation as a tough guardian watching out for Alberta's interests when it negotiated with private industry and threatened to reveal the government as a mark, easily exploited by hucksters and sharp entrepreneurs. Sparling, in particular, ~~had~~ sold the Manning govermment on a vision of industrial development which he lacked the expertise to bring into being. The government had naively believed him, partly because it lacked the experience and expertise to know the difference. Mannix had taken advantage of the Manning government in the O'Sullivan takeover and reaped handsome profits as a result, but the government had come back for more when it had to have a solution to the Sparling loan; it did not know what else to do. The Manning government's business naivete, its anxiety to line up prominent business men as Branch customers on the side of social credit, and its simplistic understanding of economics raise serious questions about its management of other sectors of the economy and particularly the province's oil development. For all these reasons, Manning had to deceive the public about the Company A, Company B Charge. For Manning, what had begun as a valiant battle to create a social credit economy by following devious routes turned into an exercise in political expediency and a battle to salvage his own reputation and that of his government.

Endnotes

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1. Unfortunately, further study of the Treasury Branch is hampered by restrictions on the availability of research materials. Although Social Credit was the best organized party in the province for more than three decades, much less information is available about how the party operated than for the Liberals, the Conservatives, or the CCF. The CCF's records show least evidence of having been 'laundered' for public consumption. Most Social Credit records are apparently still in the hands of former party president Orvis Kennedy. Personal interview with Mr. Orvis Kennedy. Edmonton, Alberta, 19 August 1985.

2. Government of Alberta. Post-War Reconstruction Committee, Interim Report to the Legislature of Alberta, March 10th, 1944, 84.

3. Government of Alberta. Report of the Post-War Reconstruction Committee, 1945, 83-84, 85.

4. A surprising number of highway construction firms banked with the Treasury Branch. A full analysis of the highway construction contracts held by these firms would require a very time-consuming reveiw of Highways Branch files.

5. "Transcript," Volume viii, 4 Oct. 1955.

6. A partial list of assigned sub-contracts would include Layden Construction to R.H. Smith in 1953 and 1954 and to Poole in 1955 (untitled worksheet, 83.197), Schuler Construction to McKelvie Construction in 1948 ("Olive worksheet," 83.197.), Thordarson Construction to Mannix Ltd. in 1951, Peace River Construction to Mannix Ltd. in 1952 ("Transcript," Volume vii, 11Oct. 1955, 443.)

7. Thordarson was taken over by Standard Gravel in 1952 and was then known as Peace River Construction. "Transcript," Volume vii, 11 Oct. 1955, 443.

8. "Statement Of Contracts Held By Contractors Who Were Indebted To The Treasury Branch," 83.197.

9. "Minutes," Loans Committee, 1 Nov. 1948, 24 Nov. 1948, 8 Dec. 48, 72.467. The pattern of providing DPW work up to the maximum credit limit of a Treasury Branch customer seems also to have occurred with Layden Construction. The Branch imposed a credit limit of $23,000 in 1949. ("Minutes," Loans Committee, 21 July 1949, 72.467.) Apparently to assist Layden with his loan, the DPW hired the firm for day labor in 1950-51, with earnings assigned to the Branch, ("Olive worksheet," 83.197.) and provided an extension on 25 May 1950 on contract 545/49 bringing its total value up to $22,691. ("Statement Of Contracts Held By Contractors Who Were Indebted To The Treasury Branch," 83.197.)

10. "Minutes," Loans Committee, 31 Jan. 1949, 9 Mar. 1949, 4 May 1949, 72.467.

11. "Minutes," Loans Committee, 6 Sept. 1950, 72.467.

12. "Statement Of Contracts Held By Contractors Who Were Indebted To The Treasury Branch," 83.197.

13. The assigned °no contract' jobs are referred to on the list of Branch clients Olive returned to the DPW prior to the Royal Commission. The DPW had sent Olive a list of firms it had had contracts with since 1941; Olive then checked off those with Branch loans together with the year of the loan. The DPW then eliminated a number of the firms on Olive's list after noting that the assigned work had been done without any official contract. "Worksheet," List of Contractors holding Highway Construction Contracts while being indebted to the Provincial Treasury Branch from 1941 to 1955, 83.197.

14. The °no contract' jobs are mainly listed on Ibid., although others are referred to on a variety of untitled worksheets in 83.197.

15. Mix Brothers loans were apparently on a liquidation basis in 1950 ("Minutes," Loans Committee, 16 Nov. 1949, 72.467.) but the °no contract' work was still not assigned.

16. "Minutes," Loans Committee, 1 Nov. 1948, 72.467.

17. To determine the true extent of the Manning government's financial support for the Treasury Branch would require further research regarding other government contract awards, the specifications of materials for government contracts, government purchases, the government's use of its regulatory power, and whether it brought pressure to bear on private industry to hire Branch customers. The major problem in undertaking such research would be the scarcity of information available regarding Branch clients and their loans. Finally, the present work has largely ignored the Branch's role as a decentralized purveyor of government services. Although the government switched from a consumer to a business orientation in its loans policies, Social Credit leaders still liked to think of the Branch in populist terms and the Branch's role as a government service center was still vital to the government's overall commitment to social credit.

18. Personal Interview with Mr. Ted Hinman, Raymond, Alberta, 28 July 1988.

19. Hinman interview.

20. Ibid.

21. "Provincial Auditor to Hawkins," 25 July 1957, 79.25; "Provincial Auditor to F.G. Stewart, Deputy Provincial Treasurer," 30 July 1959, 79.25 The two reports on agricultural loans are virtually identical in their wording.

22. A. J. Hooke dates the decline of the Alberta government's commitment to achieving a social credit economy to this decision. Personal interview with Mr. A.J. Hooke, Edmonton, Alberta, 20 July, 1988.

23. For examples see 69.289/48B and 79.25, Box 38.

24. "K.J. Hawkins to Hinman," 2 Dec. 1955, 79.25.

25. "Olive to Deputy Provincial Treasurer," 14 Feb. 1956, 79.25.

26. Ibid.

27. Hinman interview.

28. "Superintendent G.G. Davey to Hawkins," 29 July 1957, 79.25. Davey was Olive's replacement.

29. Hinman interview.

30. "Budget Speech Delivered by The Hon. T. Hinman Treasurer of the Province of Alberta," 1960, Edmonton. A. Scnitka, Queen's Printer.

31. Busy Bee, May-June 1956, 2.

32. "Manning to Walter A. Stowe," 9 May 1956, 69.289/1827.

33. "Gilliland to Low," 10 Apr. 1955, M695/174; "McLaughlin to Low," 1 Aug. 1955, M695/287. For a similar view about the need for reform see "Low to Gilliland," 18 Apr. 1955, M695/174; Hinman interview.

34. "McLaughlin to Low," 1 Aug. 1955, M695/287.

35. "Gilliland to Low," 10 Apr. 1955, M695/174.

36. "Gilliland to Low," 17 July 1955, M695/174.

37. "Low to Manning," 18 July 1955, M695/291. Rumors later circulated among the party membership that Maynard was not wanted in the government which undermined his attempt to make a comeback in 1959. "Charlie H. Calvert to Manning," 9 Feb. 1959, 69.289/2175.

38. "T.V. Speech," E.C. Manning, 24 Sept. 1957, 69.289/2163A.

39. "Provincial Auditor to Manning," 15 July 1954, 69.289/1772B.

40. "Provincial Auditor to Hawkins," 25 July 1957, 79.25.

41. The loan stood at $4,094,096 on 31 December 1955. "Olive to Deputy Provincial Treasurer," 14 Feb. 1956, 79.25.

42. Hinman interview.

43. "Olive to Deputy Provincial Treasurer," 14 Feb. 1956, 79.25.

44. "Olive to Hinman," 18 Oct. 1956, 69.289/2121.

45. "Sparling-Davis Companies, Memorandum Setting Forth Stewardship from 1953 to 1956 of Mannix Ltd., August 31, 1956," 79.25.

46. MacGregor, History of Alberta, 292.

47. Peter C. Newman, The Canadian Establishment, Volume Two, The Acquisitors, (Toronto: McClelland and Stewart, 1975), 365.

48. "Sparling-Davis Companies, Memorandum Setting Forth Stewardship from 1953 to 1956 of Mannix Ltd., August 31, 1956," 79.25. The 3 contracts were for the Pembina gas processing plant ($3 million), for the Pembina gas gathering system ($30 million) and for Pembina water flooding ($20 million).

49. "Provincial Auditor to Hawkins," 25 July 1957, 79.25. The loan, including the CESSCO portion, stood at $3,976,874.24, only slightly less than the $4,094,096 total as of 31 December 1955. "Olive to Deputy Provincial Treasurer," 14 Feb. 1956, 79.25.

50. "Provincial Auditor to Deputy Provincial Treasurer," 30 July 1959, 79.25.

51. "Budget Speech Delivered by The Hon. T. Hinman Treasurer of the Province of Alberta," 1956, Edmonton. A Scnitka, Queen's Printer, 1956.

52. "Budget Speech Delivered by The Hon. T. Hinman Treasurer of the Province of Alberta," 1957, Edmonton. A Scnitka, Queen's Printer, 1957.

53. "Budget Speech Delivered by The Hon. T. Hinman Treasurer of the Province of Alberta," 1958, Edmonton. A. Scnitka, Queen's Printer, 1958.

54. "Manning to R.J. Brown," 27 Feb. 1957, 69.289/1829.

55. "Five Year Plan," 14 August 1958, 69.289/2167B.

56. "Manning to R.J. Brown," 27 Feb. 1957, 69.289/1829.

57. The Plan was announced on the eve of the provincial Tories' leadership convention slated for August 15-16 to steal some of the thunder from the Tories who, with the rise of Diefenbaker, posed the main threat to Social Credit. Conservative MLA W.J.C. Kirby, who had replaced Prowse as Social Credit's most dangerous political opponent in the legislature, was elected leader at the convention. For Kirby's reaction see "Speech By W.J.C. Kirby, M.L.A., Provincial Leader Progressive Conservative Party of Alberta," 30 October, 1958, M6646.

58. Aberhart was known to have claimed that God was backing Social

Credit. Elliott and Miller, Bible Bill, 190.

59. Parts of Manning's undated speech are recorded in a Cornelia Wood notebook. The speech ('Where do we go from here?') is believed to have been made in 1948. 86.125/133.

60. Parts of Manning's speech, apparently entitled 'The Three Monkeys', are recorded in a Cornelia Wood notebook. From internal evidence, the speech was delivered to the 1948 convention. 86.125/420.

61. "Brief Summary, Report of Constituency Executives," 29 Nov. 1955, 69.289/1843; "Minutes of the Meeting of the Board of Directors," ASCL, 30 Aug. 1955, 69.289/1843; "McLaughlin to Low," 1 Aug. 1955, M695/287.

62. "Brief Summary, Report of Constituency Executives," 29 Nov. 1955, 69.289/1843.

63. Parts of the 29 Nov. 1955 speech were recorded by Cornelia Wood. 86.125/133.

64. The Albertan, 1 Dec. 1955.

65. Ibid., 1 Dec. 1955; Wood notebook, 86.125/133.

66. Hesketh, "Abolition of Preferential Voting," 132-34.

67. "Report, The Alberta Social Credit League Constituency Executive Conference," 4 Apr. 1956, 82.153.

68. "Minutes of Meeting of the Board of Directors," ASCL, 1 Nov. 1955, 69.289/1843.

69. "Prowse to Cecil Belleville," 18 Dec. 1948, M1724/35.

70. "Low to Bob Jorgenson," 8 Sept 1951, M695/249.

71. "Constituency Executives Conference," ASCL, 26 Nov. 1956, 82.153.

72. For copies of the Central Survey reports for 1956 and 1958 see 83.353. The polling may also have helped to compensate for the views expressed in the disproportionate volume of mail which Manning regularly received from his religious followers. For some examples see 69.289/1843.

73. "Kennedy to Dear Fellow Worker," 21 Jan. 1958, 69.289/2178.

74. See 69.289/2179 for correspondence between Manning and several of the provincial groups which looked to him, not Solon Low, for guidance.

75. "Low to Hansell," 3 Sept. 1952, M695/197.

76. "Manning to S.R. Patterson, Social Credit Association of Ontario," 31 Dec. 1950, 69.289/2168.

77. "Low to McLaughlin," 18 Dec. 1956, M695/287.

78. "Manning to Hansell," 12 April 1951, 69.289/1836; "Final Copy," March 1952, 69.289/1836; "Manning to E.O. Duke, Victoria, B.C.," 18 May 1951, 69.289/1836. The Alberta party had hoped to delay the selection of a leader and to provide the likely candidate with appropriate training in social credit principles. Manning warned Duke to be sure that Bennett was a "Social Crediter by conviction and not merely for the sake of expediency."

79. See the Hansell correspondence with Low, M695/197; "Low to McLaughlin," 18 Dec. 1956, M695/287.

80. "Low to Hansell," 13 Sept. 1956, M695/197.

81. "Low to Peer Paynter," 3 Sept. 1957, M695/462. Paynter was a party organizer.

82. "Hansell to Low," 23 Oct. 1956, M695/197.

83. "Low to Bennett," 12 Feb. 1957, M695/29; "Low to M. Gunderson," 21 June 1957, M695/483.

84. "Low to Gilliland," 10 Oct. 1957, M695/174.

85. "Manning to S.G. Toews," 25 Feb. 1958, 69.289/2177.

86. "Manning to R.T. Bowman," 7 Oct. 1958, 69.289/2168.

87. Personal Interview with Dr. David Elliott, Edmonton, Alberta, 25 April 1988.

88. On Aberhart, see Elliott and Miller, Bible Bill. For one example regarding Manning see "Manning to C. B. Clark," 19 Oct. 1954, 69.289/1840.

89. "Manning to Mrs. Mabel A. Freek, Lethbridge," 18 May 1955, 69.289/1843. Manning expressed a similar sentiment following the 1959 election: "It appears that God wishes me to remain in the field of public service, at least a little while longer. Above all else I am most anxious that any prestige that attaches to the office in which He has permitted me to serve will be used to further the cause of Christ and to bring people to a realization that their personal relationship to Him should be their first and foremost concern." ("Manning to H.B. Brubaker," 3 Aug. 1959, 69.289/2176.)

90. Watkins presents a rather unconvincing case that Manning used his position to enhance his personal wealth in the controversial land deal in which Manning acquired extra mineral rights. Golden Province, 175-80.

91. Calgary Herald, 18 May 1955.

92. Hooke interview.

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Appendix 1

Terms of Reference of the Royal Commission

"WHEREAS certain charges, allegations and reports relating to the conduct of the business of government in the Province of Alberta have been made in speeches, articles and editorials published in newspapers circulating in the Province of Alberta and have been made in reports of meetings, statements and addresses published in newspapers circulating in the Province of Alberta and also on the radio and television in various parts of the Province of Alberta; and

WHEREAS it is deemed expedient and in the public interest that an inquiry be made under the provisions of The Public Inquiries Act, being chapter 139 of the Revised Statutes of Alberta, 1942, in order to investigate the said charges, allegations and reports as contained in the said speeches, articles, editorials, newspaper reports and radio and television broadcasts and to report thereon to the Lieutenant Governor in Council; and

WHEREAS it is deemed expedient that a Commission issue to the Honourable Mr. Justice Hugh John Macdonald, a Justice of the Supreme Court of Alberta Trial Division, Chairman, John Dower, of the City of Edmonton, in the Province of Alberta, Dr. George Harrison Villett, of the City of Edmonton, in the Province of Alberta, Maurice Brown, of the City of Calgary, in the Province of Alberta, and J.H. Galbraith, of the Town of Ponoka, in the Province of Alberta, appointing them as Commissioners to conduct the said inquiry, and that the said Commission do declare the said charges, allegations and reports to be matters of public concern;

NOW KNOW YE that by and with the advice of Our Lieutenant Governor in Council, We do by these Presents nominate, constitute and appoint, pursuant to the provisions of The Public Inquiries Act, being chapter 139 of the Revised Statutes of Alberta, 1942, the Honourable Mr. Justice Hugh John Macdonald (Chairman), John Dower, Dr. George Harrison Villett, Maurice Brown, and J.H. Galbraith, as Commissioners to conduct the said inquiry

(a) to investigate and report upon the facts concerning the method of calling for tenders and awarding of building construction contracts by the Department of Public Works, and in particular as to whether

(1) the Department was justified in specifying the use of precast concrete, Ytong or cellular blocks in those cases where the use of such products was specified;

(2) in connection with such contracts the Department showed any preference for any materials by reason of the fact that a former Cabinet Minister or his relatives had a financial interest in the company which manufactured such materials;

(b) to investigate and report upon the facts concerning methods used by the Department of Public Works in the buying, selling, leasing or otherwise dealing in real property and in particular to investigate and report upon the facts

(i) concerning the purchase, sale or leasing, or

(ii) whether any Cabinet Minister or Member of the Civil Service made any personal gain from the purchase, sale or leasing of the following properties;

(1) Provincial Building, No. 2, Edmonton

(2) Alberta Block, Jasper Avenue West, Edmonton

(3) Seventeenth Avenue West Liquor Store, Calgary

(4) Ninth Avenue West Liquor Store, Calgary

(5) Proposed gaol site near Chestermere Lake

(6) Spy Hill gaol site near Calgary;

(c) to investigate and report upon the facts concerning the method of calling for tenders and awarding of highway construction contracts by the Department of Highways; and in particular to investigate and report upon whether in any instance any preference has been shown in the awarding of highway construction contracts to persons, firms or corporations by reason of their being indebted to a Provincial Treasury Branch, or to persons, firms or corporations by reason of the fact that they assumed responsibility for the liabilities of persons, firms or corporations indebted to a Provincial Treasury Branch;

(d) to investigate and report upon the facts concerning the building of a paved road by the Department of Highways from Highway 15 to the Belmont Rehabilitation Centre and the facts concerning the building and paving of a road from the Rehabilitation Centre to the Belmont Drive-In Theatre;

(e) to investigate and report upon the facts concerning the method of exchanging mineral rights owned by the Crown for mineral rights owned by others as authorized under the provisions of section 19, paragraph (a) of The Mines and Minerals Act, being chapter 66 of the Statutes of Alberta, 1949; and in particular to investigate and report upon the facts concerning the exchange of certain mineral rights between the Honourable E.C. Manning and the Crown in the right of the Province of Alberta as evidenced by Order in Council numbered O/C 1707/51 dated November 28th, 1951, and published in the Alberta Gazette on the 15th ~~day~~ of December, 1951;

(f) to investigate and report on the facts concerning the general procedure followed by the Treasury Branches with respect to making loans and in particular the making of loans by the Treasury Branches to Members of the Legislative Assembly and whether any loss was sustained by the Treasury Branches by reason of such loans; provided that in the public interest and to protect the interest of customers of the Treasury Branches no investigation shall be made into loans made to or other dealings with the Treasury Branches by any other person;

and to report thereon to the Lieutenant Governor in Council and to make such recommendations to the Lieutenant Governor in Council as the said Commissioners may in their discretion consider proper;

AND WE DO DECLARE the said charges, allegations and reports, referred to Our said Commissioners may in their discretion consider proper;

AND WE DO CONFER under authority of the Act aforesaid upon Our said Commissioners, the Honourable Mr. Justice Hugh John Macdonald, John Dower, Dr. George Harrison Villett, Maurice Brown and J.H. Galbraith, the power of summoning witnesses before them and of requiring such witnesses to give evidence on oath, orally or in writing or on solemn affirmation (if they are persons entitled to affirm in civil matters) and to produce such documents and things as Our said Commissioners may deem requisite to the full investigation of the matters into which they are appointed to inquire, and further confer upon Our said Commissioners the same power to enforce the attendance of witnesses and to compel them to give evidence as is vested in any court of record in civil cases.

IN TESTIMONY WHEREOF We have caused these Our Letters to be made Patent, and the Great Seal of Our Province of Alberta to be hereunto affixed.

WITNESS: His Honour the Honourable JOHN JAMES BOWLEN, Lieutenant Governor of Our said Province, in our City of Edmonton, this Second day of September, in the year of Our Lord, one thousand nine hundred and fifty-five, and in the Fourth year of Our Reign."

Source: Report of the Royal Commission appointed under The Public Inquiries Act, Chapter 139, Revised Statutes of Alberta 1942, Edmonton 1 June 1956.

APPENDIX 2

ABBREVIATED GOVERNMENT EXPLANATIONS OF NEGOTIATED AND EXTENSION CONTRACTS*

Explanations Respecting Negotiated Contracts

Year	Contract	
1943	397/43	Small amount of work. Thought fairer to small contractors to negotiate
1947	451/47	Unit prices submitted were acceptable.
1948	504/48	Equipment available from other contract. Same unit prices.
1949	562/49	Other contractors doing paving work already committed.
1951	673/51	Considered economical to use equipment immediately available.
	651/51	Small amount of work in relation to equipment required and contractor already in area.
	653/51	Small job. Expedient to use small local contractors.
	660/51	Road not in shape for work under Contract 635/51. To be fair Department negotiated new contract with same contractor at same unit prices.
	661/51	Department's own equipment found unable to complete whole stretch. Contractor's unit prices conformed with current prices.
	662/51	To replace cancelled contract. Contractor had equipment immediately available.
	667/51	Only one company bid after four had been invited.
	672/51	Lower prices for clearing obtained as equipment in area.
1952	704/52	No tenders received after advertising. Then invited bids and lowest bid accepted.
1953	748/53	Contractor revised bids that were thought to be too

	high and his new lower bids were accepted.
752/53	Negotiated because this contractor only one with specialized equipment required for experimental construction contemplated.

Explanations Respecting Extension Contracts

Year	Contract	
1943	397/43	Small amount of work, extended as work progressed.
1949	545/49	Small section left undone, thought too small to invite new bids. Same unit prices.
	546/49	As unit prices considered below usual, felt good economy.
	563/49	Thought too late in season to advertise additional work. Same unit prices as on original work.
1950	592/50	Same gravel deposit common to two contracts. Extension arranged for crushing and stockpiling.
1951	631/51	Adverse weather prevented getting road in condition for paving. To offset loss of work gave grading extension contract at same unit prices.
	638/51	To take advantage of unit prices bid on a larger quantity of work.
	643/51-1	To eliminate delay and to provide access for bridge crews.
	643/51-2	Considered expedient due to relative inaccessibility of the area and fact contractor on the spot. Same unit prices.
	645/51	To take advantage of low unit crushing price and to avoid delay.
	647/51	Bridges not complete and access poor. With original contractor on the job decided most economical to grant extension. Unit prices were low.
	649/51	Bids at unit prices on large contract. Thought too big a job to do so got contractor to do less at same prices. Then when got more work done than expected -- extended it.
	651/51	Small job rendering it uneconomical for other contractors to come in.

	654/51	Job carried over to 1952. As price considered reasonable decided to complete connection from Derwent to Highway 41.
	660/51-1	Contractor finished early. Decided to extend roadway 5 miles at same price.
	660/51-2	Clearing of right of way at same unit price as original contract to anticipate future work.
1952	690/52	Work completed early in fall. Extension to take advantage of unit prices on main contract.
1953	721/53	Completed contract early. Considered economical to continue work.
	726/53	Surveys had eliminated some road. Contractor on job given chance to revise the contract.
	728/53	Contract completed early. Considered economical to take advantage of good weather.
	732/53	Improved location to be worked on. Took advantage of contractor in area--same unit prices.
	733/53	Delays of Board of Transport Commissioners left small section open. While contractor in area extended contract at same unit prices to complete this section.
	752/53	This contractor had only equipment available for specialized work contemplated here.
1955	853/55	To have base course and surfacing continuous through the Cloverleaf intersection with Trans Canada Highway granted extension. Work too small to invite outside contractor.

*The abbreviated government explanations are reproduced verbatim except that references to the appropriate Commission exhibits have been deleted.

Source: Report of the Royal Commission azppointed under The Public Inquiries Act, Chapter 139, Revised Statutes of Alberta, 1942, Edmonton, 1 June 1956.

Appendix 3

Government Explanations of Contracts 457/48 and 504/48

Contract 459/47 - Stabilized Gravel Base
Course and Asphaltic Surfacing, Edmonton
to Morinville, Gravel Surfacing Morinville
to Legal - Mile 5.55 to 32.35.

This Contract was advertised for tenders in May, 1947. Two bids were received, one from the O'Sullivan Construction Co., and the other from W. C. Wells Construction Co. Ltd. The Wells Construction bid was disqualified as it was received by the Department after the closing time specified in the advertisement. The O'Sullivan Construction Bid was accepted on the 2nd of June, 1947 (Letter of June 2nd, 1947) at an estimated cost of $257,623.48. A marked cheque for 10% or $25,760.00 was received by the Department as a surety deposit.

Various amendments and extensions were made during the progress of this contract, firstly, due to the fact that gravel pits closer to the work in question were discovered after the contract was executed which extended the truck haul but eliminated the train haul in the original contract, and secondly, it was found that extensive sub-grade repairs had to be made before the base course and surfacing could be laid. This extra work increased the total amount of this contract to $736,444.90. A certain amount of work was also done within the city of Edmonton limits, the cost of which was refunded to the Department by the City.

Contract 504/48 - Stabilized Gravel Base
Course and Asphaltic Plant Mix Surfacing
Morinville to Clyde Corner, Mile 20.65
to Mile 45.61

Before completion of Contract No. 459/47, negotiations were carried out with the O'Sullivan Construction Co. to continue the base course and surfacing from Morinville to Clyde Corner. A letter from G.H.N. Monkman, Deputy Minister of Public Works, to A. Frame, Highway Commissioner, on June 26, 1948, suggested the renewing of Contract 459/47, and that he had advised Mr. O'Sullivan that work should commence on June 28, 1948. A.M. Paull, Assistant Highway Commissioner, sent a telegram on June 26, 1948, asking Mr. O'Sullivan to visit Edmonton to arrange for crushing of gravel on the Morinville-Clyde Corner project. Mr. O'Sullivan submitted a price on the crushing of gravel by letter to A. Frame on June 29, 1948. The crushing of this gravel commenced June 29, 1948. A letter from G.H.N. Monkman to A. Frame, on June 29, 1948, authorized the drawing up of a Contract with the stipulation that prices in this second contract were to be the same as those in the original contract for those items which were common to both contracts. The new contract was numbered 504/48, and the cost of Contract 504/48 was estimated to be approximately $707,904.82.

It should be noted that the grading of Highway No. 2 from Morinville to Clyde Corner had been completed in November 1947, and was, therefore, ready for the base course and surfacing in 1948. The O´Sullivan Construction Co. in 1948, were in the final stages of completing their Contract from Edmonton to Legal and their equipment was readily available to continue the paving from Morinville to Clyde Corner. The granting of this extra work to the O´Sullivan Construction Co., would be the logical way of completing this paving.

By letter of July 16, A. Frame advised the O´Sullivan Construction Co. that their tender had been accepted. Enclosed with the letter were three copies of the Contract form and specifications, and by letter of July 23, 1948, F. O´Sullivan returned the three copies of Contract and Specifications signed and a cheque for $70,800.00, being the Bond required. This cheque was not certified and, therefore, could not be accepted by the Department as the Performance Bond required.

By memorandum of July 24, 1948, from G.H.N. Monkman to C.K. Huckvale, Provincial Auditor, it was suggested that the Performance Bond be made up of the $25,760.00 being the deposit on Contract 459/47. The proposal was refused by Mr. Huckvale, by memorandum of August 13th, 1948.

On August 16, 1948, A. Frame wrote the O´Sullivan Construction Co., advising that they must provide a Bond for 100% or a marked cheque for 20% of the total estimated amount of the Contract.

Work started on Contract 504/48 on August 16th, 1948, pending receipt of the necessary Performance Bond or marked cheque. By memorandum of September 3, 1948, A. Frame advised G.H.N. Monkman that no Bond or cheque had been received.

Work continued on both contracts and by memorandum of October 26, 1948, A. Frame, Highways Commissioner, notified Mr. W.H. Turton, Department Secretary-Accountant, that the deposit of $25,760.00 from Contract 459/47 plus a marked cheque for $45,040.00 had been accepted in lieu of Indemnity Bond on Contract 504/48, "as Contract 459/47 has been completed." Contract 459/47 had been completed on September 23, 1948.

The Contractor´s executed agreement was forwarded to him on November 15, 1948, by A. Frame. Contract 504/48 was completed on August 5, 1949, at a total amount of $664,589.24.

V

Re: Edmonton to Morinville, Contract 459/47, O'Sullivan Construction Company

After advertising in the usual way, tenders were opened May 30th, 1947 and the Contract awarded to O'Sullivan Construction Co., the only bidder. The work covered placing Stabilized Gravel Base Course to a finished thickness of six (6) inches and width of twenty-six (26) feet; and Asphalt Hot Plant Mix Surface Course to a finished thickness of two (2) inches and width of twenty-two (22) feet, from Edmonton to Morinville, mile 5.55 to mile 20.15, a distance of 14.60 miles, and applying seal coat. Also included was first course gravel surfacing from Morinville to Legal, mile 20.65 to mile 33.35, a distance of 12.70 miles. The material to be produced in the government owned Viewpoint Pit, South of Camrose. The train haul from the Viewpoint Pit to the project was separate from the contract.

Crushing in the Viewpoint Pit started July 4th, 1947 and work started on the highway August 9th. Placing Stabilized Gravel Base Course commenced August 18th.

Work on the highway closed down November 5th, at which time 6.45 miles of Stabilized Gravel Base Course had been laid from Edmonton to North of St. Albert.

During the month of October the City of Edmonton was carrying out paving operations up to the city limits and arrangements were made to have O'Sullivan Construction Company place Asphaltic Hot Plant Mix on the Base Course, which the city forces had already laid. Payment for this work was made to the contractor under his contract and is included in the amount shown on the final estimate. Payment amounted to $4,785.79 and reimbursement of the Province was later made by the City.

Towards the end of November arrangements were made with the contractor to obtain additional gravel from the Michel Indian Reserve Pit, west of the highway, to be stockpiled near Volmer. An amendment to the contract was prepared to cover the work involved. A copy of which is attached hereto. The haul dstance form the Michel Pit to the Volmer stockpile was 14.8 miles. Payment for excavation, crushing and stockpiling was made at $0.65 per ton. When this material was placed on the road, the balance of $0.75 was paid to make up the original contract unit price of $1.40 per ton.

It was originally planned to remove 30,000 tons from the Michel Indian Reserve Pit, but due to the nature of the pit, gravel in pockets, it was only possible to obtain 11,429.45 tons. Two moves of the crusher were necessary to obtain this. The second move increased the haul to the Volmer stockpile to 16.4 miles. Work in the Michel Indian Reserve Pit closed down at the end of February 1948. During this time, the Contractor had experienced considerable trouble with frost and a high clay content in the pit. Because of these difficulties, the contractor investigated the possibilities of obtaining gravel elsewhere and, as a result, was able to make arrangements with the City of

Edmonton to obtain gravel form the City pit. Crushing was at the same price of $0.65 per ton. The haul to the Volmer stockpile was approximately the same distance as from the Michel Indian Reserve Pit.

Crushing the above material for the Volmer stockpile did not represent any appreciable increase from the original contract, but the haul did. This amounted to 473,820.63 ton miles at $0.07, making a total cost of $33,167.44. The unit price of $0.07 represents the government rate of $0.06. plus $0.01 for supervision.

30,144.70 tons of Base Course Gravel were placed in the Volmer stockpile and, in addition, 3,062.45 tons were hauled from the Edmonton City pit and placed in stockpile at St. Albert. The material train hauled to St. Albert had been used and additional material was required for 1948 operations. Payment for the haul of 3,062.45 was made at the rate of $0.825 per ton. Haul distance to St. Albert was 11.5 miles. At that time the government rate for 10 to 12 1/2 miles was $0.75 per ton. The contractor was allowed 10% for supervision, thus making $0.825 per ton. The haul was additional to the original contract and amounted to $2,526.52. This haul was completed April 2nd, 1948.

In connection with the production of seal coat chips, arrangements were made with the contractor to crush this material in the City of Edmonton pit. However, only 643 cu. yards of these chips were crushed. The 643 cubic yards were ultimately used on 16-C-1, since later developments resulted in using 1/4 inch sand seal on the Edmonton to Morinville project.

The reason that the seal coat chips had not been produced in the Viewpoint Pit, as called for in the original contract, was that the Canadian National Railway had withdrawn their cars from train haul on November 10th, 1947 and material which had not been crushed to that date was cancelled as far as the Viewpoint Pit was concerned. It was for this reason that other arrangements had to be made to obtain additional material required to complete the contract.

Work again commenced on the highway May 17th, 1948, at which time it was found necessary to do additional work on sections of the Base Course completed the previous year. Due to spongy subgrade conditions, portions of the highway from mile 6.60 to mile 15.00 had to be excavated and backfilled with pit-run. A total of 92,267.05 tons of pit-run was used. A unit price of $0.75 per ton was negotiated for this work, which covered the removal and wasting of unsuitable soil, loading pit-run gravel, placing and compacting in the excavation and replacing the Base Course material. This material was obtained from the Clover Bar Pit, the Ottewell Pit and the Shenfield Pit. The haul of pit-run was paid at $0.01 above government rates, giving a unit rate of $0.07, the haul distance ranging form 13.8 miles to 28.94 miles. The unit price was raised to $0.08 after July 1st, when government rates were increased by one cent.

From mile 15 to mile 20.65 it was decided that an 18 inch lift of clay should be placed on the subgrade before placing the Stabilized

Gravel Base Course. Arrangements were made with Sundance Mines Ltd., to obtain the necessary clay free of charge. A unit price of 50 cents per cubic yard was negotiated with the contractor, which covered excavation, loading, spreading and compacting. Hauling was paid at 1 cent over government rates, giving a rate of 14 cents for the 0 to 5 mile haul and 12 cents for the 5 to 10 mile haul.

Additional subgrade preparation, such as removal of frost boils and shaping shoulders, which was not covered in the contract was paid as force account. It was also necessary to detour form Morinville to Namao over a municipal road, the maintenance of which was paid by force account.

The following statement shows the work done and the cost of placing pit-run gravel and clay together with the afore [sic] mentioned force account:

Backfill & Haul Pit-Run				
Load	92,267.05 tons	at	$0.75	$ 69,200.29
Haul	1,788,236.53 T.M.	at	0.07	125,176.55
Haul	262,911.95 T.M.	at	0.08	21,032.96
Dig, Load & Place Clay				
	90,437 cu. yds.	at	0.50	45,218.50
Haul	286,182.27 C.Y.M.	at	0.14	40,065.52
	65,102.22 C.Y.M.	at	0.12	7,812.27
Force Account on Subgrade and Maintenance of Detour on Municipal Road				15,707.87
			Total	$324,213.96

The original contract called for the Base Course and Plant Mix to go only to the south boundary of the town of Morinville, at mile 20.15. It was later decided to continue on to the north boundary of the town, which was mile 20.65. This meant an additional 0.50 miles of work, the cost of which was $21,336.29 and is included in the final contract amount.

In the original contract 14,790 tons of Base Course material was to have been train hauled to Morinville siding. However, when train hauling was closed down by the Canadian National Railway withdrawing their gravel cars, only 5,749 tons had been hauled. It was, therefore, necessary to obtain more gravel in the Morinville area. Towards the end of May a deposit was found 2 miles north of Waugh Post Office and 11 miles east of the highway at Vimy. The owner was Mr. Zilinski and the pit was given this name. It might be mentioned at this point that no more gravel was available in the City of Edmonton Pit, since the area which had previously been used had been worked out.

The distance from the Zilinski Pit to the south boundary of Morinville was approximately 31 miles. Payment for the haul of the material required was paid on the basis of the government haul rate of 7 cents for over 12 1/2 miles plus 1 cent, thus giving a unit rate of 8 cents per ton mile. Stripping, excavation and compacting Base Course Gravel was paid at the contract price of $1.40 per ton. The additional haul for this material amounted 274,443.74 ton miles, which at 8 cents per ton mile represented an additional cost of $21,955.50.

After picking up the Base Course material which had been laid in 1947, from mile 6.60 to mile 15.00, and relaying it after the pit-run gravel had been placed, it was found necessary to place additional Base Course Gravel in the amount of 17,236 tons. At $1.40 per ton this represented an increased expenditure of $23,430.40. The haul of this material is included in the hauls already described from the Michel Indian Reserve Pit, the City of Edmonton Pit and the Zilinski Pit.

Apart from the extra work done in the City of Edmonton and through the town of Morinville, an additional 5,880.40 tons of Asphaltic Plant Mix material was placed on the highway to give additional strength. At $3.10 per ton in place, this meant an increased expenditure of $18,229.24. The extra haul for this Plant Mix material at the varying rates of 8 cents, 10 cents and 11 cents per ton mile amounted to $19,136.23.

In connection with the Plant Mix operations, it was found necessary to add fines to the aggregate crushed from the Zilinski Pit. Arrangements were, therefore, made with the contractor to load sand at 25 cents per ton and haul at government rates plus 1 cent. The material amounted to 979.35 tons, which at 25 cent per ton made a total cost of $244.84. the haul of this material amounted to 43,376.47 ton miles at 8 cents per ton mile, giving a total cost of $33,390.12.

It should also be mentioned that at the time the Stabilized Gravel Base Course was being laid, it was decided to mix the top lift with Asphalt binder, to obtain additional stability and strength. A price of 5 cents per square yard was arranged with the contractor for this work. The work involved 140,062 square yards at 5 cents, giving an expenditure of $7,003.10.

Some saving was accounted for in placing First Course Gravel between Morinville and Legal, since it was decided to continue Base Course and Plant Mix operations to Clyde Corner under a new contract. The saving on First Course Gravel amounted to approximately $4,000.00. Another saving was made in the laying of seal coat which was changed from 1/2 inch chips to 1/4 inch sand seal. This amounted to approximately $4,220.00. These savings were offset by small increases on other contract items which have not been mentioned in the preceding description of the work but are not considered to be of any significance.

The following statement gives a summary of the additional costs to the original contract amount:

Summary of Additional Costs

Work in City of Edmonton		$ 4,785.79
Hauling Base Course Gravel to Volmer Stockpile		33,167.44
Haul Base Course Gravel to St. Albert Stockpile		2,526.52
Pit-Run & Clay to Subgrade and Force Account		324,213.96
Town of Morinville		21,336.29
Haul of Additional Base Course		21,955.50
Additional Base Course Placed		23,430.40
Additional Plant Mix Placed		18,229.24
Haul of Additional Plant Mix		19,136.43
Loading Sand for Plant Mix		244.84
Haul of Sand		3,390.12
Mixing Asphalt Binder		7,003.10
Miscellaneous Increases		7,987.26
Total		$487, 406.89
LESS:		
Less Saving on First Course Gravel	$4,372.78	
Saving on Seal Cost	4,212.69	
		$ 8,585.47
Increase		$478,821.42
Total Amount Paid on Contract No 459/47		$736,444.90
Total Amount of Tender		$257,623.48
Total Increase		$478,821.42

It should be pointed out that, as a result of the Canadian National Railway withdrawing their cars from train haul at the Viewpoint Pit, the total material was not hauled and a saving in freight of $38,441.78 was made. Since freight is paid to the railway on a separate account, it meant that the haul in the contract was increased correspondingly.

RE: Morinville to Clyde Corner
Contract 504/48,
O´Sullivan Construction Co.

During the summer of 1948 it was decided that Asphaltic Surfacing should continue from Morinville to Clyde Corner. grading of this section had been completed November 3rd, 1947 by Western Construction & Lumber Co. Ltd., and New West Construction Co. Ltd. Gravel Surfacing had been done from Morinville to North of Legal, at Mile 32.43, by O´Sullivan Construction Co., from Mile 32.43 to Clyde Corner by Sundre Contracting Co. Ltd.

At the time consideration was being given to doing the work there were only two other contractors in the Province, besides O´Sullivan Construction Co., with equipment to do Asphalt Surfacing. These were Standard Gravel and Surfacing of Canada Ltd., and W.C. Wells Construction Co. Ltd.

Standard Gravel & Surfacing of Canada Ltd., completed their surfacing contract from Lethbridge to Coutts on August 10th, 1948 and an extension to the contract which covered Base Course, Plant Mix and Seal Coat from Lethbridge to Kenyon Airport was completed August 11th. They had also been awarded two contracts, which were advertised, from Macleod to Lethbridge, on Highway 3, a distance of 31.56 miles, and from High River to Macleod on Highway 2, a distance of 68.11 miles.

Standard Gravel started Stabilized Gravel Base Course from High River to Macleod May 20th, and by June 30th had completed 15% of it. Asphaltic Plant Mix did not start until August 1st. On the contract from Macleod to Lethbridge, Base Course work did not commence until July 26th and Plant Mix started August 10th.

W.C. Wells Construction Co. Ltd., were awarded a contract May 20th, which had been advertised, from Ponoka to Wetaskiwin, a distance of 22.53 miles. The contract covered Stabilized Gravel Base Course, Asphaltic Plant Mix Surface Course and Seal Coat.

Work started on the Base Course June 16th and by the end of June approximately 10% had been completed. The Base Course was completed September 27th, 1948. Plant Mix Surfacing started July 7th and was completed October 7th, 1948. Seal Coat Surfacing was not done until 1949.

It might be mentioned at this point that Grading from Red Deer to Ponoka had been completed in November 1947. In August 1948 a government camp commenced placing Base Course at Red Deer and was working north.

To speed up completion of the surfacing from Red Deer to Ponoka it was considered adviseable [sic] to have W.C. Wells Construction Co. Ltd., do a portion of the work. Accordingly, an extension to Well´s [sic] contract from Ponoka to Wetaskiwin was prepared, using the same unit prices as in the original contract for similar work. This extension covered Base Course, Plant Mix and Seal Coat for 13.61 miles South of Ponoka. Most of the Base Course on this was completed by November 1948, with the Plant Mix and Seal Coat work being done in 1949.

From the foregoing description of the work being done by Standard Gravel & Surfacing of Canada Ltd. and W.C. Wells Construction Co. Ltd., it will be seen that it was not possible for either of them to have taken on any more work. It is, therefore, considered that arrangements made to have O'Sullivan Construction Co. continue working north of Morinville was the only way the work could have been done in 1948.

June 29th instructions were given by the Deputy Minister to the Highway Commissioner to prepare a Contract for the necessary work to be done between Morinville and Clyde Corner. A tender was prepared showing estimated quantities and mailed to O'Sullivan Construction Co. June 30th, with the request that unit prices be quoted and the tender returned for consideration.

The tender was returned July 6th and the total amounted to $841,201.55. After an examination of the unit prices submitted it was considered that some were too high. These were discussed with the contractor and reduced. The total contract price of the accepted tender amounted to $707,904.82, being $106,296.73 less than the tender received July 6th. The contractor was advised by letter July 16th, 1948, that his tender had been accepted and three copies of the Contract and Specifications were sent to him for signature.

In the meantime arrangements had been made with the contractor to start crushing 1 inch Base Course aggregate to stockpile at the Zilinski Pit. A price of 65 cents per ton for crushing plus 5 cents per ton for stockpiling was negotiated to cover 25,000 tons of 1 inch material. Crushing to stockpile started June 29th and was completed July 7th. Crushing 3/4 inch Plant Mix aggregate to stockpile commenced on July 7th and payment at the rate of 65 cents per ton was allowed for this. Since the contract price for crushing and placing Plant Mix was $2.35 per ton, the balance of $1.70 was paid when the material crushed to stockpile was placed on the road.

Placing Stabilized Base Course Gravel on the highway north of Morinville started August 16th and shut down November 1st with 21.95 miles completed. Asphaltic Hot Plant Mix operations started on the highway September 21st and closed down November 2nd with 16.46 miles completed. Seal coat started September 27th and closed down October 8th with 4.15 miles completed. Base Course operations resumed May 13th, 1949 and the contract was completed, with the laying of Seal Coat August 5th, 1949.

The total expenditure on Contract 504/48 amounted to $664,589.24 which was $43,315.58 less than the original contract tender amount of $707,904.82. A description of changes in specifications and unit prices is given as follows:

The unit price of $0.45 per square yard for preparation of the subgrade was the same as in Contract # 459/47 and no change was made in it. The original quantity however was reduced from 439,296 sq. yds. to 322,133 sq. yds. This was because it was decided to eliminate the laying of 5 inches of Pit-Run Gravel on account of a deficiency of fines and an excess of smooth pea-size material around the 1/4 inch. It was decided to lay all crushed gravel for Base Course with the first lift stabilized with clay, which was to be obtained by scarifying the subgrade. Because of the extra work involved, the original contract price of $1.15 per ton was increased to $1.25. Material from stockpile to be stabilized with clay in a similar manner was paid at the rate of 70 cents per ton instead of 60 cents as in the original contract. The prices of $1.25 and 70 cents were negotiated.

Mixing asphalt binder in the top lift of Base Course was deleted because of the lack of fines in the aggregate. Therefore the unit price of $1.20 was not used. Because this item was eliminated, it was found necessary to broom and apply prime coat on the Base Course. A unit price of 2 1/2 cents per square yard was negotiated for this.

Because of the elimination of the top lift of Asphalt Bound Base Course, it was decided to increase the thickness of the Plant Mix from 3 inches to 5 inches. Payment for this remained the same as before, that is 65 cents to stockpile and $1.70 to the road, making a total unit price of $2.35 per ton in place.

Other unit prices in the contract remained unchanged. These were the haul of material, shouldering and seal coat. The unit price for applying seal coat was the same as Contract 459/47. With the exception of `Preparation of Subgrade´ and `Application of Seal Coat,´ all other unit prices were different in Contracts 504/48 and 459/47 because operations and haul distances were different. [A comparison of original contract unit prices to final costs completed the original exhibit. The comparison could not be located.]

Source: 83.197, Provincial Archives of Alberta.

Appendix 4

Findings of the Royal Commission Regarding Reference C

OUR FINDINGS ARE AS FOLLOWS

We are satisfied that the method of calling for tenders and the awarding of those contracts, respecting which we heard evidence, complied with all statutory requirements, with the exception of Highway Constracts 459/47 (Edmonton to Legal) and 504 /48 (Morinville to Clyde Corner) awarded to O'Sullivan Construction Company in 1947 and 1948 respectively...

106. In each of these two cases, the contractor was allowed to proceed with the work before contracts were signed by all the parties, and before the required security was given. This contravened section 18, sub-section (3) of The Public Works Department Act, supra, which reads as follows:

> "No sum of money shall be paid to the contractor nor shall any work be commenced on any contract until the contract has been signed by all the parties named therein nor until the required security, if any, has been given."

107. The aforementioned sub-section of the Act may also have been contravened with regard to Bridge Contract number 438/47(concrete substructure for bridge over Old Man River at Lethbridge). In this case the Department of Public Works instructed the contractor to unload certain sheet metal piling at the bridge site, prior to the contract having been signed or the required security given.

It is fair to state, however, that in each of these three cases, no money was paid to the contractor until the required securities had been given and the contract signed by all the parties.

108. We are satisfied that the present standard procedure in the awarding of contracts by the Department of Highways is by calling for tenders. The procedure begins by an advertisement being inserted in three Alberta papers, namely, the Edmonton Journal, the Calgary Albertan, and the Lethbridge Herald, and where the Trans-Canada Highway is involved, in some papers published outside the Province. The sample advertisement filed as an exhibit sets out the qualificiations required of the contractor

regarding the deposit, surety bonds, residence and other qualifications, closing time and date, and also names the places where specifications and contract forms may be obtained.

109. The tenders are delivered to the Deputy Minister of Highways in sealed envelopes. The tenders are opened by the Deputy Minister, in the presence of a representative of the Audit Department, the Departmental Secretary-Accountant, and the Branch Head concerned. When tenders are being opened for the construction of the Trans-Canada Highway, the Federal Supervising Engineer is also present. Since August 1955, all tenders have been opened in public.

110. The Deputy Minister opens all envelopes, removes from each the tender and accompanying bid bond, and reads aloud the bid bond. The Secretary-Accountant records this information on bid sheets. Each open tender is then handed to the Branch Head, who reads aloud the total amount of such bid. The Secretary-Accountant enters this information handed to the representative of the Audit Department, who makes such extracts as his Department requires. In the case of Trans-Canada Highway contracts, the Federal Supervising Engineer also records such information as he requires.

111. All tenders, bid bonds, and the bid sheet are then taken by the Branch Head to his office, where he hands them to his office engineer, who records on the bid sheet the prices of the various items covered in each tender. The office enginer checks all entries for mathematical errors and marks the corrections, if any, in red on the bid sheet. He then signs the bid sheet, showing it was compiled in the office of the Branch Head.

112. All bid bonds are delivered to the Secretary-Accountant for safe keeping. All tenders, except the lowest are retained by the office engineer, pending the awarding of the contract. In all cases, subject to certain exceptions which we will mention, the lowest tender is accepted. However, there are cases where, for good reason, all bids are rejected and new tenders called. The lowest tender and the bid sheet are then returned to the Branch Head, who, in turn examines the tender and the bid sheet to determine that the office engineer's work is in order. The Branch Head also examines the list of equipment, furnished by the contractor, to ascertain whether the contractor is capable of carrying out the project for which, he has tendered. The Branch Head then signs the bid sheet, and makes a notation thereon that a 100% performance bond is required. Before May 1st, 1951, a marked cheque for 20% of the contract price was acceptable in lieu of a performance bond, but in a few instances 10% was accepted. The original copy of the tender is returned to the office engineer for safe keeping.

113. The Branch Head then returns the completed bid sheet to the Deputy Minister. If he is satisfied that everything is in order,

the Deputy Minister inserts the name of the lowest bidder in the space provided on the bid sheet and signs it. The bid sheet is then taken to the Minister, who, by his stamp and initials, approves the awarding of the contract.

114. If, however, for any reason the Branch Head considers there are circumstances connected with the lowest bidder, which would affect his carrying out of the contract, he so advises the Deputy Minister. Upon receipt of such information, or if there are circumstances of which the Deputy Minister is aware, a further investigation may be warranted. If, following such an investigation by the Minister and Deputy Minister, they consider that the contract should not be awarded to the lowest bidder, a recommendation is made for an Order in Council rejecting the lowest bid and awarding the contract to the next lowest bidder. Such recommendation carries with it the reasons for the rejection.

115. The evidence shows five contracts where the second lowest tender was accepted, instead of the lowest tender, on the authority in each case of an Order in Council. Details of these contracts and the reasons for each Order in Council, are compiled in Appendix V.

116. The bid sheet is then returned to the Branch Head, who advises the unsuccessful bidders of the awarding of the contract, and their bid bonds are then returned. The name of the successful bidder and the amount of his tender, together with a list of all other bidders and amounts of their tenders, are released to the press.

117. Three copies of the contract are typed and forwarded to the successful bidder. The contractor is instructed to sign and return two copies of the contract together with a performance bond for 100% of the amount of the bid. The third copy is sent to the contractor's bonding company. The two signed copies of the contract are returned to the Branch Head, together with the executed performance bond, and both copies are taken to the Minister for signature and seal. The original copy and the performance bond are placed in the files of the Branch Head. The second signed and sealed copy is sent to the successful bidder, and his bid bond is returned.

118. In certain instances the procedure as outlined is not followed. For example, a contractor may finish his contract in the early Fall, with the possibility of a continuance of good construction weather. To take advantage of this, he may be granted an extension of his existing contract. The extension would cover an additional length of road over and above that specified in the original contract, and at the same unit prices. It would appear from the evidence before us that there were other reasons for extensions in addition to the one outlined above. Appendix VI shows 24 extension contracts from 1941 to 1955. Appendix VII gives the reasons for each of the extensions

referred to in the extensions contract covered in Appendix VI.

119. A further exception to the standard procedure of calling for tenders is in the awarding of what is known as "negotiated contracts". When it becomes evident to the Department, that certain work is immediately necessary, and if a contractor is working on another project close by, he may be asked to submit prices for which he will do this additional work. If his prices are acceptable, a contract is entered into with him.

Another reason why a contract may be negotiated, would be where some special advantage can be gained by the Department. The evidence before us indicates that with respect to the Construction Branch, 15 contracts were negotiated, in whole or in part, during the period 1941 to 1955 inclusive. Appendix VIII is a compilation of the general details with respect to such 15 negotiated contracts. Appendix IX gives the reasons for negotiating the contracts listed on Appendix VIII.

The evidence adduced relating to Bridge Branch contracts shows that all contracts considered by us were awarded after the calling for tenders, with the exception of one negotiated contract, Number 438/47, relating to the bridge over the Old Man River near Lethbridge (supra, paragraph 77).

120. Another exception to the standard procedure is by what are called "invited tenders", where very small contracts are concerned. A number of contractors, usually local, are asked to submit prices, if they are interested. The lowest bid is accepted and the contract executed. In such cases, performance bond and deposit requirements are usually waived. This procedure is followed mainly by the Maintenance Branch. An examination of the evidence before us shows that, occasionally, some of these invited tenders merge into negotiated contracts. Only one "invited tender" contract was considered in detail by us. This related to the paving of the road from Highway 15 to the Belmont Rehabilitation Centre. This contract forms the subject matter in reference (d).

We are satisfied that no preference has been shown in the awarding of highway construction contracts, to persons, firms, or corporations by reason of their being indebted to a Provincial Treasury Branch, or to persons, firms or corporations by reason of the fact that they assumed responsibility for the liability of persons, firms or corporations indebted to a Provincial Treasury Branch.

We heard a vast amount of evidence respecting the construction of certain highways.

We are, of course, well aware of the fact that the construction of highways in Alberta is a task of ever increasing magnitude. It is common knowledge that special problems arise owing to the varying complexities of our soil and the extremes of our climate.

The terms of the Commission invite us to make such recommendations as we may consider proper, and to report thereon to the Lieutenant Governor in Council.

Accordingly, with respect to the construction of highways in Alberta we make the following recommendations:

(1) Tenders should always be called for in the construction of highways.

(2) Advertisements for tenders for the construction of highways should be published as soon as possible after the Legislature has authorized the expenditure for same.

(3) Such advertisements should provide a reasonable time for contractors to submit their bids.

(4) The practice of opening of tenders in public should be continued.

(5) Successful tenders should be required to post a 100% performance bond.

(6) Successful tenderers should be required to provide a maintenance bond, to be in force for a reasonable period, to protect the Department against poor workmanship.

(7) The evidence indicates that tests of soil and materials are vital to the efficient construction of stable highways; further that such tests provide the Department with information which is of importance in drawing up specifications and in arriving at accurate estimates of cost.

We observe from the evidence that a programme of testing which was commenced in 1938 has been greatly expanded, and that a new Highways Testing Laboratory was set up in 1954.

We urge that emphasis be placed on its development, to the end that it will at all times be furnished with the most up-to-date equipment and manned by the most competent personnel available.

While we realize that the present practice of the Department of Highways may well be in accord with the above recommendations, nevertheless we think that they are of sufficient importance to be emphasized.

Source: Report of the Royal Commission appointed under The Public Inquiries Act, Chapter 139, Revised Statutes of Alberta, 1942, Edmonton. 1 June 1956.

Appendix 5

O'Sullivan Construction and Mannix Main Highway Construction Contracts

Date	Contractor	Contract Number	Bid Contracts		Negotiated Contracts		Extensions	
			Bid ($)	Amount Paid ($)	Negotiated Value	Amount Paid	Negotiated Value	Amount Paid
13 Dec. 46	Frank O'Sullivan	435/46	32,000.00	32,127.19				
24 Mar. 47	O'Sullivan Constr.	449/47neg.				29,606.73		
31 Mar. 47	O'Sullivan Constr.	443/47	135,960.32	142,367.40				
29 May 47	O'Sullivan Constr.	472/47neg.				6,837.74		
5 June 47	O'Sullivan Constr.	459/47	257,623.48	736,444.90				
June 47	O'Sullivan Constr.	467/47neg.			15,000.00	13,597.09		
29 July 47	O'Sullivan Constr.	469/47	50,822.96	53,042.10				
18 Nov. 47	O'Sullivan Constr.	483/47	55,176.00	55,493.85				
11 May 48	O'Sullivan Constr.	497/48neg.				23,537.93		
19 Oct. 48	O'Sullivan Constr.	498/48neg.				30,783.45		
4 June 48	O'Sullivan Constr.	499/48neg.				5,330.30		
19 July 48	O'Sullivan Constr.	504/48neg.			707,904.82	664,589.24		
25 Oct. 48	O'Sullivan Constr.	524/48	76,121.17	89,790.64				
6 Apr. 49	O'Sullivan Constr.	527/49	11,165.92	11,295.61				
21 May 49	O'Sullivan Constr.	537/49	54,491.84	53,617.19				
31 May 49	Fred Mannix	540/49	76,010.00	89,834.99				
13 July 49	O'Sullivan Constr.	551/49				6,322.87		
26 Aug. 49	Mannix-O'Sullivan	557/49				16,800.00		
2 Sept. 49	Mannix-O'Sullivan	562/49neg.			151,976.50	150,677.55		
9 Sept. 49	Fred Mannix	563/49ext.					33,910.50	25,782.92
22 Nov. 49	Mannix-O'Sullivan	572/49	129,137.90	120,993.18				
11 Apr. 50	Mannix-O'Sullivan	575/50	327,170.99	380,480.66				
23 May 50	Mannix-O'Sullivan	592/50	442,071.67	782,729.35				
23 May 50	Fred Mannix	593/50	386,826.18	464,340.51				
8 Dec. 50	Mannix-O'Sullivan	620/50	336,625.00	325,674.02				
22 Jan. 51	Mannix-O'Sullivan	592/50ext.					57,375.00	57,419.59
19 Apr. 51	Mannix-O'Sullivan	625/51neg.			79,733.13			
Oct. 51	Mannix-O'Sullivan	625/51amend.			98,869.08	165,796.54		
2 May 51	Mannix-O'Sullivan	635/51	764,581.39	208,752.80				
21 May 51	Mannix Ltd.	637/51	219,621.85	221,097.78				
29 May 51	Mannix Ltd.	643/51	360,353.50	448,677.05				
23 June 51	Mannix Ltd.	651/51neg.			182,219.70	217,507.25		
1 Aug. 51	Mannix Ltd.	651/51ext.					40,619.00	34,371.33
28 July 51	Mannix Ltd.	655/51	222,111.67	255,224.75				
17 Aug. 51	Mannix Ltd.	660/51neg.			500,598.06	532,500.25		
15 Aug. 51	Mannix-O'Sullivan	661/51neg.			416,448.27	411,534.01		
27 Aug. 51	Mannix-O'Sullivan	662/51neg.			103,912.50	31,430.12		
19 Oct. 51	Mannix Ltd.	643/51ext.1					142,402.50	290,943.66
3 Dec. 51	Mannix-O'Sullivan	670/51	134,700.00	139,991.23				
17 Dec. 51	Mannix Ltd.	672/51neg.			138,700.00	151,071.28		

			Bid Contracts		Negotiated Contracts		Extensions	
Date	Contractor	Contract Number	Bid ($)	Amount Paid ($)	Negotiated Value	Amount Paid	Negotiated Value	Amount Paid
5 May 52	Mannix-O'Sullivan	678/52	657,109.15	680,486.14				
9 May 52	Mannix-O'Sullivan	682/52	684,659.54	672,535.64				
8 May 52	Mannix Ltd.	690/52	384,220.00	463,073.22				
16 May 52	Mannix-O'Sullivan	683/52	686,592.02	633,947.45				
6 June 52	Mannix Ltd.	691/52	237,910.00	271,769.07				
17 June 52	Mannix Ltd.	643/51ext.2					211,557.50	475,071.30
20 June 52	Mannix Ltd.	698/52	114,829.50	120,926.35				
23 June 52	Mannix Ltd.	700/52	629,419.00	674,953.00				
12 Aug. 52	Mannix Ltd.	660/51ext.1					106,757.24	94,975.79
29 Oct. 52	Mannix Ltd.	660/51ext.2					4,750.00	4,220.00
23 Dec. 52	Mannix-O'Sullivan	707/52	65,320.00	67,131.72				
27 Apr. 53	Mannix-O'Sullivan	719/53	991,765.67	1,074,300.97				
19 May 53	Mannix-O'Sullivan	734/53	777,402.56	802,856.19				
20 May 53	Mannix Ltd.	690/52ext.					138,525.00	196,092.47
25 May 53	Mannix-O'Sullivan	741/53	948,186.40	918,128.12				
24 June 53	Mannix Ltd.	748/53neg.			714,725.00	1,027,820.00		
10 Dec. 53	Mannix-O'Sullivan	766/53	56,425.00	56,425.00				
10 Dec. 53	Mannix-O'Sullivan	768/53	40,950.00	40,955.10				
4 May 54	Mannix-O'Sullivan	789/54	306,805.23	?				
4 May 54	Mannix-Robertson	790/54	344,079.18	380,149.71				
14 May 54	Mannix-O'Sullivan	796/54	620,726.95	624,314.08				
26 May 54	Mannix Ltd.	803/54	669,658.20	?				
31 May 54	Mannix/Western	807/54	441,467.69	?				
27 May 54	Mannix-O'Sullivan	811/54	653,826.11	?				
3 Sept. 54	Mannix Ltd.	828/54	900,297.47	?				
25 Apr. 55	Mannix-O'Sullivan	845/55	198,342.86	?				
27 June 55	Mannix-O'Sullivan	865/55	559,657.92	?				

If the amount paid is designated "?" the contract was not completed at the time of the Royal Commission hearings.

Source: 83.197 Provincial Archives of Alberta.

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